HUSKY

ANNUAL REPORT 1967

GENERAL OFFICE

815 Sixth Street, S.W.
Calgary 2, Alberta, Canada

UNITED STATES OFFICE

Post Office Box 380
Cody, Wyoming 82414

REFINERIES

Cody, Wyoming
Lloydminster, Alberta
Moose Jaw, Saskatchewan

DIVISION MARKETING OFFICES

Billings, Montana
Calgary, Alberta
Fort William, Ontario
Spokane, Washington

HUSKY BRIQUETTING, INC.

Post Office Box 380
Cody, Wyoming 82414

PLANT LOCATIONS

Bienfait, Saskatchewan
Dickinson, North Dakota
Huntsville, Ontario
Isanti, Minnesota
Waupaca, Wisconsin

GATE CITY STEEL CORPORATION

P. O. Box 914, Downtown Station
Omaha, Nebraska 68101

DISTRICT OFFICES

Boise, Idaho
Davenport, Iowa
Denver, Colorado
Omaha, Nebraska
Pocatello, Idaho
Sterling, Illinois

RIMROCK TIDELANDS, INC.

P. O. Box 7074
Shreveport, Louisiana 71107

DISTRICT OFFICE

London, England

TRANSFER AGENTS AND REGISTRARS

Common Shares —

Montreal Trust Company
Offices at Calgary, Halifax, Montreal, Regina, Saint John, Toronto, Vancouver and Winnipeg
The Chase Manhattan Bank, New York City

Preferred Shares —

Montreal Trust Company
At above offices

AUDITORS

Peat, Marwick, Mitchell & Co.
Calgary, Alberta

HUSKY

ANNUAL MEETING

The Annual General Meeting of shareholders of Husky Oil Canada Ltd., will be held at the Calgary Inn in Calgary, Alberta at 10:00 a.m. on May 10, 1968. Formal notice of this meeting and proxy material are enclosed.

Highlights of Operations

FINANCIAL	1967	1966
Gross operating revenues	$ 90,197,000	$ 66,943,000
Net cash income from operations	18,672,000	16,203,000
Net earnings	8,308,000	6,513,000
Per common share	$1.01	$0.81
Growth expenditures	39,811,000	31,649,000
Working capital at end of year	15,072,000	18,783,000
Long term debt and deferred income at end of year	74,125,000	52,287,000

OPERATIONS		
Crude oil and equivalent gas production (barrels daily)	29,648	25,532
Net oil and equivalent gas reserves (barrels)	257,900,000	251,700,000
Lloydminster blend sales (barrels daily)	16,505	13,145
Refinery runs (barrels daily)	20,248	18,387
Refined product sales (barrels daily)	21,750	19,323
Number of sales outlets	764	751

CONTENTS

Officers and Directors

OFFICERS

GLENN E. NIELSON
Chairman of the Board

GENE E. ROARK
President

ARNOLD LARSEN
Executive Vice President

T. G. WISE
Executive Vice President

H. B. BRUMMOND
Vice President

R. M. McMANIS
Vice President

J. E. NIELSON
Vice President

M. F. WESTFALL
Vice President

D. H. FLORA
Secretary

D. R. HAGERMAN
Treasurer

L. E. SAUNDERS
Controller

S. L. CATE
President, Gate City Steel Corporation

M. R. McARTHUR
Chairman of the Board, Rimrock Tidelands, Inc.

J. E. NIELSON
President, Husky Briquetting Inc.

BOARD OF DIRECTORS

GLENN E. NIELSON
Cody, Wyoming
Chairman of the Board
Husky Oil Canada Ltd.

GENE E. ROARK
Calgary, Alberta
President, Husky Oil Canada Ltd.

J. WADDY BULLION
Dallas, Texas
Partner, Law firm of Thompson, Knight Simmons and Bullion

G. S. ECCLES
Salt Lake City, Utah
President and a Director of First Security Corporation and of First Security Bank of Utah.

A. P. FRAME
Toronto, Ontario
President, A. P. Frame Limited, Petroleum and Petrochemical Consultants

J. L. KALB
Wickenburg, Arizona
Petroleum Management Consultant

J. K. McCAUSLAND
Toronto, Ontario
Vice President and a Director of Wood, Gundy & Company Limited

F. R. MATTHEWS, Q.C.
Calgary, Alberta
Partner, Law firm of MacKimmie, Matthews, Wood, Phillips & Smith

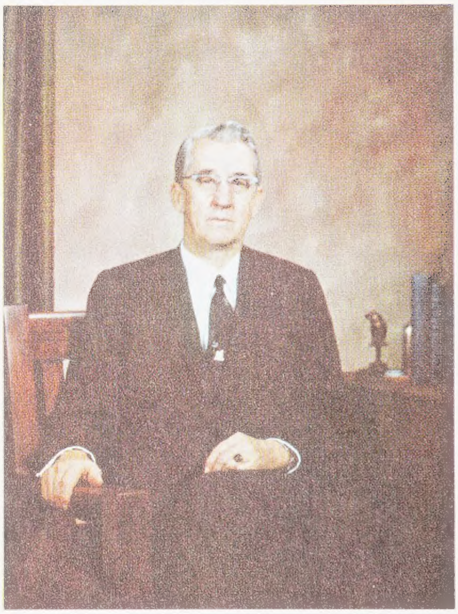
H. H. MILLAR
Edmonton, Alberta
President and a Director of Western Construction and Lumber Co. Ltd.

P. R. PAYN
Baltimore, Ontario
Executive

WARD C. PITFIELD
Toronto, Ontario
President, Pitfield, Mackay, Ross & Company Limited

To the Shareholders

This year is the 30th anniversary of Husky Oil. Much has happened in those 30 years. From a small beginning, Husky has grown into a fully integrated oil company with operations in both Canada and United States. It participates in almost every facet of the oil industry, together with some diversification.



GLENN E. NIELSON
Chairman of the Board

Nineteen sixty-seven was an exceptionally significant year. Our consolidated net profit reached an all-time high of $8,308,000. This profit record is particularly significant when it is recognized that in 1960, the year the Canadian and U.S. Husky companies were consolidated, the joint operations sustained a $2¼ million loss. The 1967 net profit was a 28% increase over the 1966 profit of $6,513,000. Earnings in 1967 of $1.01 per share were an increase of 25% over the preceding year. Net cash income from operations increased 15% to a new high of $18,672,000.

One of the more recent significant forward steps of the Company is the acquisition of the assets of The Frontier Refining Company. Negotiations were begun in 1967 and completed officially on February 15, 1968. This combination gives Husky a refining and marketing capacity of 45,000 to 50,000 barrels per day, and crude production is forecast at 33,000 barrels per day.

The combining of these two companies has made Husky a significant marketer in the United States. We now market in an area extending north and south from the middle of the Dakotas through all of Montana, Wyoming and Nebraska, parts of Kansas, Colorado, New Mexico and Arizona, and west into Utah, Nevada, Oregon and Washington. In Canada, the distribution of Husky products follows the Trans-Canada Highway from the area north of the Great Lakes in Ontario almost to the Pacific Coast in British Columbia. We firmly believe that Husky's marketing is in areas in which considerable gains in population are anticipated, giving them the greatest possibilities for growth.

Husky's strong exploratory program was continued during 1967, and this will be emphasized even more in 1968. Our policy of concentrating exploration and development efforts in the Lloydminster area has been a large contributor to our rapid growth in the past few years. In the Lloydminster area, we are well ahead of our planned project schedule. The field has justified the Company's expectations, with excellent reaction to waterflood operations. Revenues from Lloydminster are now in excess of investment requirements, freeing funds to finance exploration operations in other parts of Canada and the United States.

Last July 10 marked the 20th anniversary of Husky's refinery at Lloydminster going on stream, and an enthusiastic reception was held to observe the occasion.

During 1967, Husky participated in some outstanding important new exploratory wells in widely different areas of the Province of Alberta in Canada. Two major gas wells a mile and a half apart have been drilled at Quirk Creek in southern Alberta. At present two additional wells 5 miles apart are being drilled on the structure and, if these are successful, extensive development of the field is planned.

In the United States, Husky has a significant position in the much publicized Bell Creek area in Montana and Wyoming and has had a high level of activity in this area during the year.

In a broadening of Husky's exploratory horizons, the Company, in 1967 with eight other parties, began work toward what early in 1968 proved to be a successful bid for widely sought Federal tracts off the shore of California. With our partners, we now hold two tracts, each containing 5,760 acres, in the Santa Barbara Channel. Drilling was started March 24, 1968, on one of these leases.

Other projects include the new $10 million deep sea jack-up drilling rig, "Gulftide", which is now operating in the North Sea under an initial three-year contract. A land rig was also converted for use on a stationary platform and is now under contract and working in the North Sea.

Looming 60 stories above Calgary, in Alberta, is one of the Company's most widely recognized joint undertakings. It is the 613-foot Husky Tower which has received international attention. The Tower will house a revolving restaurant and an observation deck at the top. It will be the focal point for an adjoining Husky Super Service Station and a Husky office building, and will have unusual advertising and publicity value. The Tower will be opened to the public in early summer.

With many growth projects well underway, the outlook for Husky is very favourable for 1968 and succeeding years.

In order to coordinate Husky's expanding operations, a new top level management team has been appointed by the Board of Directors. I have now become Chairman of the Board and Chief Executive Officer.

Gene E. Roark, widely recognized as a foremost national and international petroleum engineer and consultant, was appointed President of Husky in May, 1967. A director of Husky for three years previous to his appointment as president, he had been with James A. Lewis Engineering Company of Dallas, Texas, for 16 years and served as president of that firm for seven years. His first work for Husky was in 1954, and his knowledge of the Company, gained in past years, will be very beneficial in his new position.

Two long-time Husky executives, Arnold Larsen and T. G. Wise, have been appointed Executive Vice Presidents. They had been Senior Vice Presidents previously. Mr. Larsen is responsible for financial operations and for the Rimrock Tidelands drilling subsidiary. Mr. Wise is responsible for the Frontier Division of Husky and the overall direction of refining, marketing and distribution in both Canada and the United States.

We want to pay tribute to the late M. H. "Bud" Robineau, founder and, until his death August 18, 1967, President of The Frontier Refining Company. His was a distinguished career. He was never too busy to help in industry or civic affairs, and his interests were so varied that he was well known as an avid sports enthusiast and athlete in his own right.

Mr. Robineau founded Frontier in 1940 and built it into a leading independent refining and marketing company in the inter-mountain area of the United States. This organization is a fine monument to "Bud" Robineau, and we are proud to have the opportunity to carry it on in Husky.

In closing, we want to acknowledge the invaluable help of our shareholders, employees and present and past directors in making Husky a forward-moving, growing company.

On behalf of the Board

Glenn E. Nielson

GLENN E. NIELSON
Chairman of the Board

Calgary, Alberta, 1968.

Review of Operations

Production

Production reached record levels in 1967, achieving a 16% increase to 29,648 barrels per day of oil and equivalent gas.

A major share of the 1967 production increase came from the Lloydminster area. Waterflood operations have been highly successful in Lloydminster, and substantial improvements have been made in well completion techniques. As a combined effect of these two technological advances, field production is well ahead of the long range forecast made at the time the Lloydminster project was initiated. It is interesting to note that in the Aberfeldy Unit, where modern techniques have been extensively applied, the average production from each well is 80 barrels per day, whereas the Lloydminster project was predicated on an average production of 23 barrels per day.

Techniques and methods applied in the Aberfeldy Unit are being implemented in other areas of Lloydminster and are expected to have broad application. Other processes of improved recovery and well stimulation are being actively investigated by the Company's engineers, who are confident that ways will be found to achieve even greater recovery efficiencies and economies in the operation of the vast Lloydminster area.

With continuing improvement in marketing conditions for the Lloydminster blend, and the planned improvements and extensions of the Interprovincial Pipe Line, Husky should benefit from a sustained production increase from the Lloydminster area.

Outside of Lloydminster, unitization was completed and waterflood projects installed in the Emma San Andres Field in West Texas and the Dodsland Field in Canada. Project enlargement took place in the Aberfeldy and South Epping Units of Lloydminster and in the Oregon Basin and Rangely Fields in the United States. These activities should provide significant increases in production in 1968 and future years.

Husky in 1967 again maintained its position as the most active company in Canada, in terms of number of wells drilled. The Company drilled or participated in 162 development wells, of which 143 were completed as oil producers and three were completed as gas producers. Of the development wells, 92 were drilled in the Lloydminster area, 16 in other parts of Canada and 54 in the United States. Twenty-two of the wells completed as oil producers are located in the Bell Creek area of Montana which is one of the most active areas of exploration and new discovery in the United States. Drilling is continuing and at a recent date Husky owned working interests ranging from 21% to 50% in a total of 35 producing wells in the region.

Net Reserves

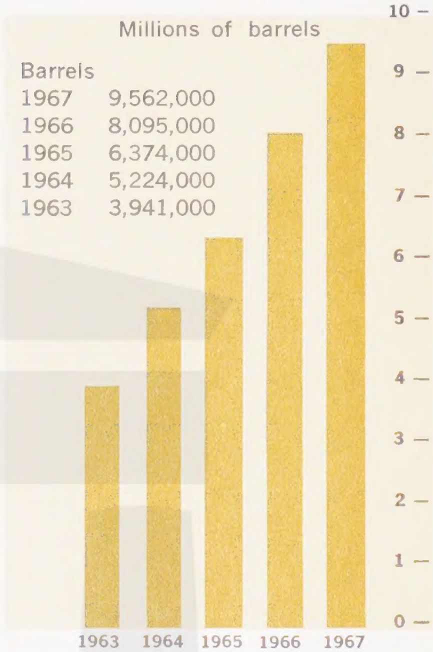
Husky's net reserves of oil and equivalent gas, on December 31, 1967, were estimated by James A. Lewis Engineering Company of Dallas and Calgary at 258 million barrels. The significant change in reserves occurred in the proved category, which increased 16 million barrels over 1966 after deducting 10,822,000 barrels produced during 1967.

NET OIL AND EQUIVALENT NATURAL GAS PRODUCTION

(thousands of barrels)

	1967	1966
CANADA:		
Alberta	2,687	2,349
Saskatchewan	904	978
Lloydminster	3,311	2,172
Other Areas	13	6
Total Canada	6,915	5,505
UNITED STATES:		
Colorado	462	476
New Mexico	682	604
Texas	452	424
Wyoming	2,028	2,021
Other Areas	101	132
Rimrock Tidelands	182	157
Total U.S.A.	3,907	3,814
Total	10,822	9,319

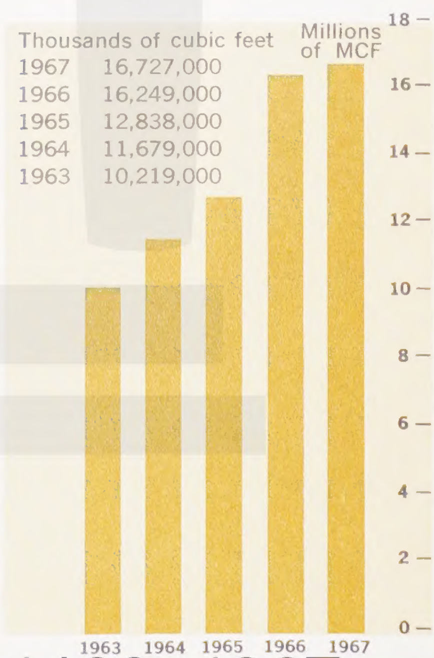
NET PRODUCTION CRUDE OIL AND GAS LIQUIDS



NET OIL AND GAS PRODUCTION

	Oil and Gas Liquids (thousands of barrels)		Natural Gas (millions of cubic ft.)	
	1967	1966	1967	1966
CANADA:				
Alberta	1,982	1,670	8,826	8,488
Saskatchewan	801	858	1,293	1,511
Lloydminster	3,265	2,131	568	504
Other Areas	—	—	159	78
Total Canada	6,048	4,659	10,846	10,581
UNITED STATES:				
Colorado	430	427	485	730
New Mexico	429	387	3,789	3,257
Texas	396	369	846	823
Wyoming	1,991	1,984	547	560
Other Areas	99	130	25	23
Rimrock Tidelands	169	139	189	275
Total U.S.A.	3,514	3,436	5,881	5,668
Total	9,562	8,095	16,727	16,249

NET PRODUCTION NATURAL GAS



SUMMARY OF WELLS DRILLED IN 1967

	Gross Wells				Net Wells			
	Oil	Gas	Dry	Total	Oil	Gas	Dry	Total
Exploratory Drilling	22	7	32	61	17.6	4.3	25.9	47.8
Development Drilling	143	3	16	162	95.8	0.4	9.2	105.4
Total Drilling	165	10	48	223	113.4	4.7	35.1	153.2

Exploration

A continuing exploration program is being carried out in Lloydminster to sustain the growth potential of that project and to explore for deeper producing possibilities. The success of operations in Lloydminster is generating increasing cash flow, freeing funds for exploration operations in other parts of Canada and the United States.

In 1967, Husky participated in several major exploratory plays which resulted in significant discoveries. The Quirk Creek Field, near Turner Valley in southern Alberta, was discovered during the year and a second confirmatory well was drilled and completed. This is interpreted to be an important field with significant gas and sulphur reserves. Upon completion of two more wells, now drilling, Husky will have earned a 24% working interest in 23,360 acres.

NET RESERVES OF OIL AND EQUIVALENT NATURAL GAS

Thousands of Barrels	*Proved*	*Probable*	*Possible*	*Total*
Lloydminster	53,700	12,100	40,000	105,800
Other Canada	64,400	16,000	16,800	97,200
U.S.A.	43,500	8,700	2,700	54,900
Total	161,600	36,800	59,500	257,900

Husky participated in the drilling and completion of a gas well in the Nell Field, and after drilling a second well will have earned a 52½% working interest in 10,080 acres. This discovery is on the Gold Creek-Simonette trend west of Edmonton. Husky also participated in successfully drilling and completing its first oil well in the Rainbow area during the year. Through its exploration activities in the Bell Creek Field, Montana, Husky contributed to extensions and development of this Field. The Company owns an interest in 22,000 acres in the Bell Creek area.

Under the agreement with Canadian Pacific Oil and Gas Limited, six deep stratigraphic test wells were drilled in the Lloydminster area to obtain information on deeper formations underlying the 1,000,000 acres on which mineral rights are held by Husky through this agreement. An extensive seismic program is nearing completion, and additional deep drilling is scheduled for the summer of 1968.

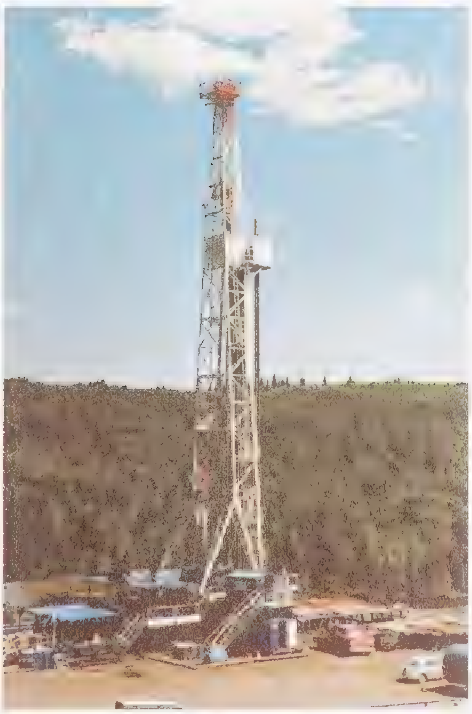
Husky joined a bidding group of eight other companies in successfully acquiring two Federal leases of 5,760 acres each in the Santa Barbara Channel, offshore California, in which the Company has interests of 10% and 12.3% respectively. Exploratory activities have commenced on these leases, which are considered to have possibilities for large reserves of oil and gas.

A vigorous exploration program was carried out in 1967. In 1968, the forecast for the exploration budget in Lloydminster, the Santa Barbara Channel, and in other areas of Canada and the United States is expected to more than double the 1967 expenditures.

EXPLORATORY ACREAGE HOLDINGS AT DECEMBER 31

Thousands of Net Acres

	1967	1966
CANADA:		
Alberta	1,545	371
British Columbia	5	5
Saskatchewan	1,970	945
Arctic Islands	538	538
N.W.T. & Yukon	29	—
Total Canada	4,087	1,859
UNITED STATES:		
Alaska	33	56
Rocky Mountain Area	244	182
Southwestern States	46	1
Other Areas	6	2
Total U.S.A.	329	241
NORTH SEA	44	40



Quirk Creek discovery well southern Alberta

Refining and Marketing

Refinery runs increased by 10% to an average exceeding 20,000 barrels per day at Husky's three refineries at Cody, Wyoming; Lloydminster, Alberta, and Moose Jaw, Saskatchewan. Light oil products marketed through company outlets in 1967 increased 8% over the preceding year. Net cash income from refining and marketing reached an all-time high which resulted in a 36% increase over 1966.

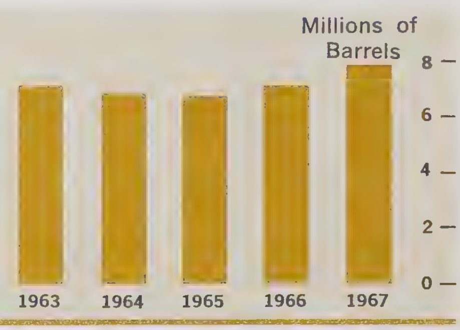
REFINERY RUNS

(thousands of barrels)

Refinery:	1967	1966
Cody, Wyoming	4,244	3,846
Lloydminster, Alberta	2,057	1,798
Moose Jaw, Saskatchewan	1,090	1,067
	7,391	6,711

REFINED PRODUCT SALES

	Barrels
1967	7,939,000
1966	7,053,000
1965	6,678,000
1964	6,695,000
1963	7,045,000

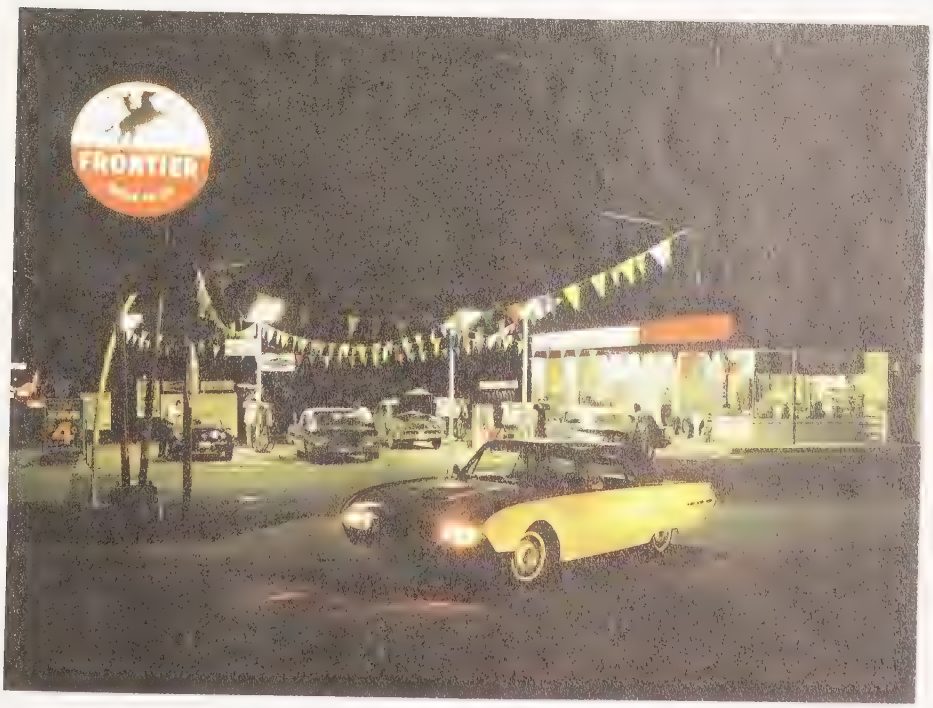


To keep pace with new developments in asphalt marketing. Husky will acquire Blackline Asphalt Sales, Inc., Spokane, Washington. This company's primary business is the marketing of asphalt and related petroleum products. Blackline owns five central asphalt storage facilities in strategic marketing locations in Washington, Idaho and Colorado and distributes asphalt by truck to contractors on jobs in these areas. As a result of this acquisition, Husky will be in a position to profit from the trend away from tank car deliveries direct to contractors and meet the increasing demand for truck deliveries wherever possible. This concept of asphalt marketing is similar to service station marketing of gasoline — Husky will go directly to the customer.

HUSKY SALES OUTLETS

Marketing Division	*Service Stations*	*Bulk Plants*	*Total*
Calgary	203	45	248
Billings	122	50	172
Spokane	169	38	207
Fort William	120	17	137
	614	150	764

Husky Superst
Bismarck
North Dak



Frontier servic
station, Denver

Acquisition of Frontier Refining

Continuing its growth pattern, Husky has acquired all of the assets of The Frontier Refining Company, a leading independent refiner and marketer in the Rocky Mountain area of the United States. Because the acquisition was effected on February 15, 1968, the operating results of Frontier during 1967 are not reflected herein.

This new combination, with Frontier being operated as a division, gives Husky a refining capacity of 45,000 to 50,000 barrels per day, and production is forecast at 33,000 barrels per day of crude oil and equivalent gas. The combination gives Husky in excess of 1,600 outlets.

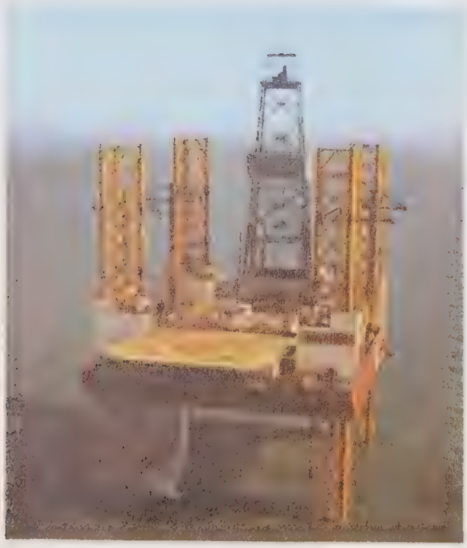
The merger brought to Husky three additional refineries. They are located at Cheyenne, Wyoming; North Salt Lake, Utah, and Farmington, New Mexico. Their respective capacities are 20,000, 8,000 and 1,000 barrels per day.

Fortunately, the marketing areas of Frontier and Husky do not conflict; in fact, they complement each other. Within the whole complex resulting from the combination there are only 13 stations that are within four city blocks of each other.

The acquisition provides Husky with an opportunity for economies through larger scale operations, consolidated refining and marketing, and coordinated advertising.

Husky is now definitely established as an integrated oil company and will pursue all of the competitive advantages of such a position within the industry.

Husky's new "Gulftide" hydraulic-powered jack-up rig in North Sea.



Subsidiary Operations

Contract Drilling

The lack of activity for rigs of shallow water drilling capability in the Gulf of Mexico during the last half of 1967 caused earnings of Rimrock Tidelands, Inc., a wholly-owned subsidiary, to decline from $1,169,000 to $245,000. However, by early 1968 all rigs were again operating. Profits from offshore drilling will increase this year as a result of improving activity in the Gulf of Mexico and the operation of two new units in the North Sea.

"Gulftide", the new $10 million jack-up offshore drilling rig built at Clydebank, Scotland, is now operating in the North Sea under an initial three-year contract. This is one of the largest and strongest rigs of its kind ever constructed. It is specifically designed for the extreme weather conditions in the North Sea.

In addition to this new rig, a land rig has been converted for offshore use. It is presently under contract and in use on a drilling platform in the North Sea.

Briquetting

Due to the strengthening of the marketing operations of Husky Briquetting, Inc., a wholly-owned subsidiary, sales increased by more than 36%. This resulted in a net profit in 1967 for the first time. This increase in sales will enable the four plants, located at Bienfait, Saskatchewan; Dickinson, North Dakota; Waupaca, Wisconsin, and Isanti, Minnesota, to optimize plant capacity and reduce unit costs.

In order to meet the increasing demand for barbecue briquets in the Canadian market, Husky entered into a 50% partnership agreement with Muskoka Charcoal Limited, under which a new briquetting plant with a capacity of 10,000 tons per year was constructed at Huntsville, Ontario. The new briquetting plant has the most modern carbonizing equipment in Canada. The plant is in a strategic location to serve eastern Canada.

Husky Tower

With its wide-ranging growth pattern, Husky is participating in a dramatic, internationally recognized project in Canada. This is the 613-foot Husky Tower, the key structure in the planned business redevelopment of Calgary's Palliser Square. The redevelopment plan will incorporate a Husky Super Service Station, to be operated in conjunction with a large parking structure, and an adjoining office building.

The 60-story Husky Tower has already become a symbol for fast-growing Calgary. The lofty spire with its unmatched view of the mountains and the prairies will attract several hundred thousand visitors yearly, and will feature a revolving restaurant as well as an observation area. It has already received major publicity in all news media throughout Canada and the United States and will afford Husky a continuing vehicle for advertising and publicity. Official opening is scheduled for late June, 1968.

Sixty-story Husky Tower in Calgary, Alberta.

Steel Fabrication and Warehousing

Net profit of Gate City Steel Corporation, in which Husky holds an 82% interest, totalled $1,052,000, an increase of 36% over the 1966 profit of $776,000. Contributing to this increase has been aggressive management, coupled with new facilities and equipment, all geared to take care of the needs of manufacturers in Gate City's marketing areas in Idaho, Colorado, Illinois, Nebraska, Iowa, Utah and Wyoming.

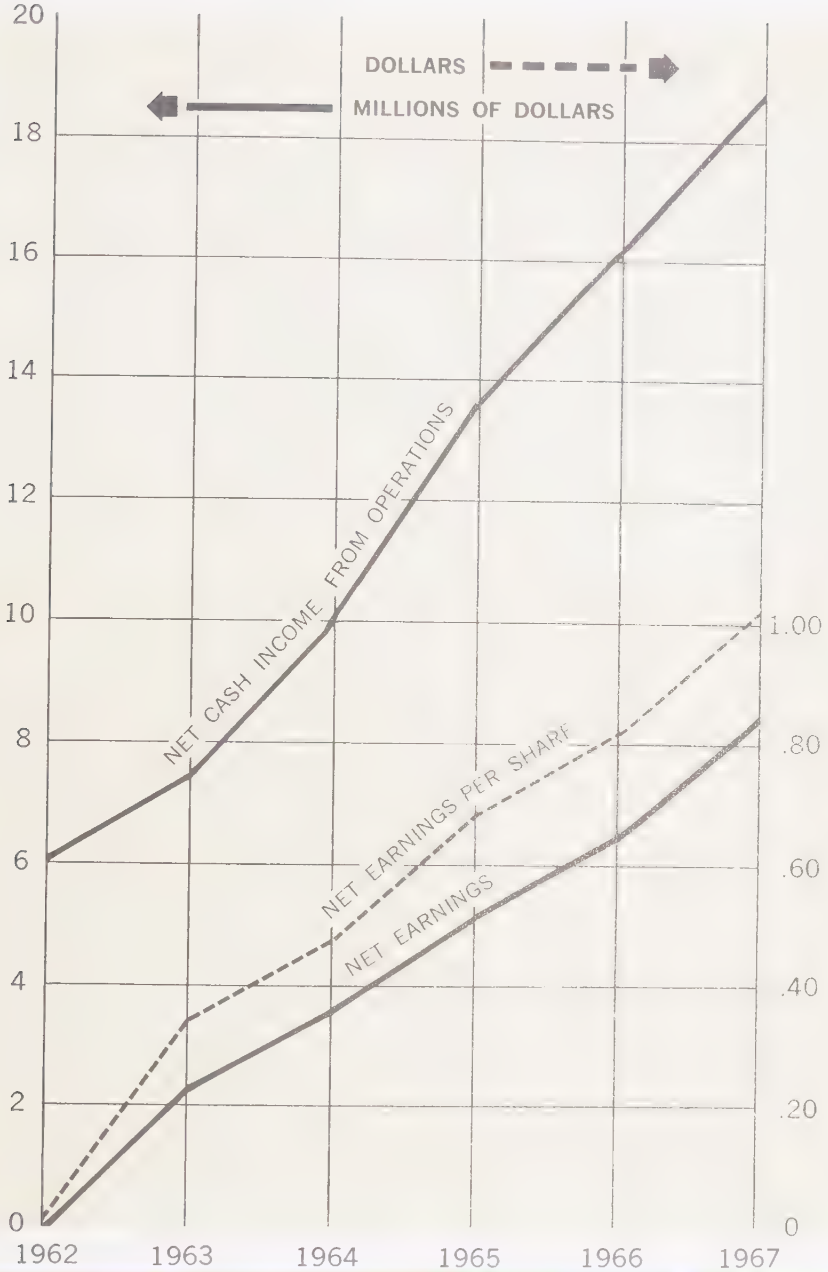
An expansion project was completed this year at Gate City's Denver location. This is now the most modern steel service centre in the Denver market, which has one of the fastest growth rates in the United States.

The company has started construction on a new fabrication plant at Sterling, Illinois, scheduled for completion in the spring of 1968. This plant is located advantageously to service western Illinois and the states of Iowa, South Dakota and Nebraska for building and highway work.

[illegible] of Gate City Steel's Denver Service Centre.

Financial

FINANCIAL SUMMARY



Operating Results

Including a special credit of $708,000, Husky's consolidated net profit in 1967 increased 28% to $8,308,000, compared with the net profit of $6,513,000 obtained in 1966. Sales and operating revenues of $90,197,000 were up 35%. Net cash income from operations rose 15% to $18,672,000.

On a common share basis, 1967 earnings were equal to $1.01 per share after preferred dividends, an increase of 25% over the 81¢ per share earned last year.

Issue of Common Shares

During 1967, 213,134 shares were issued or allotted, and two significant issues have been made in 1968. The acquisition of the assets of The Frontier Refining Company was accomplished by the issue of 740,392 Husky common shares and the assumption of the liabilities of Frontier. This represented an exchange rate of one Husky share for each 2½ Frontier shares. The transaction took place officially February 15, 1968.

In December 1967, Husky called for redemption the whole of its outstanding Series C, 5¾% Cumulative Redeemable Convertible Preferred Shares, with a par value of $50 each, convertible into common shares at $15 per share. As a result of this call for redemption, Husky issued a total of 997,755 common shares and paid $34,000 to the Series C Preferred shareholders in 1968.

Financial

In 1967, the Company sold a $20 million issue of Series B, 6¾% Sinking Fund Debentures with 240,000 stock purchase warrants identical to those already listed on the Toronto and Montreal stock exchanges. The Company is required to provide a sinking fund for the retirement of $250,000 of these debentures in each of the first five years, $600,000 in each of the next five years, then $750,000 per year until maturity. Other borrowings amounting to approximately $10 million came largely from banks and included an eight-year 5½% loan in Sterling from a U.K. bank, arranged in connection with the construction of "Gulftide".

Because of the discovery of new sources in more favourable geographical areas and the unsettled market situation in phosphates, Husky sold 25% of its interest in phosphate deposits near Soda Springs, Idaho, for $750,000. The gain on the sale amounted to 11¢ per share in earnings. Husky has the right to sell the remaining 75% interest over the next two years for not less than $2,250,000.

Available funds from cash flow and access to bank lines of credit, which total $27,500,000, are more than sufficient for planned 1968 expenditures in the event long term loans are not available on acceptable terms.

Source and Use of Funds

Cash income from operations totalled $18,672,000, an increase of $2,469,000 (15%) over the last year. Long term debt increased by $20,267,000 and together with cash income from operations provided the major source of funds in 1967. Growth expenditures were a record $39,811,000, of which $14,761,000 was used to increase oil and gas reserves and $10,829,000 was spent on offshore contract drilling equipment. Additional investment in gas plant and pipeline facilities totalled $5,018,000.

Husky Shareholders

Husky common shares outstanding at February 29, 1968, totalled 8,296,918, which is an increase of 29% over the 6,431,476 shares outstanding at the end of 1966. These figures include the shares issued in connection with the Frontier acquisition and the redemption of the Series C, 5¾% Cumulative Redeemable Convertible Preferred Shares.

Husky shares continue to be widely held, with owners residing in every province of Canada and nearly every state in the United States as well as in England and various European countries. For European shareholders, arrangements were made in 1967 to list Husky shares on the Amsterdam Stock Exchange.

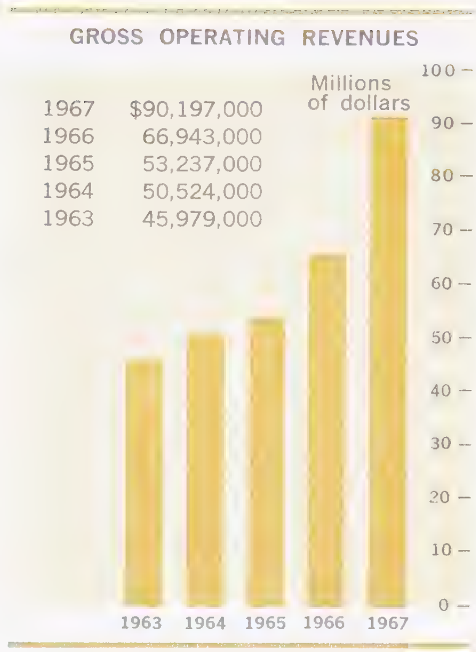
As a convenience for U.S. shareholders, Husky's new dividend policy on common stock is that shareholders of U.S. registry will be paid dividends in U.S. currency equivalent to the dividend paid in Canadian currency converted at the prevailing exchange rate at the close of business on the dividend record date.

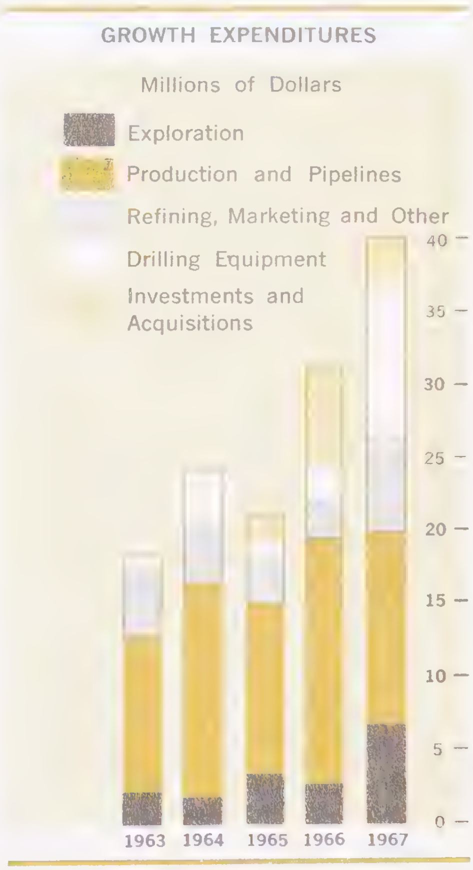
The conversion of preferred stock, the exercise of share purchase warrants, and the acquisition of Frontier made Husky common shares subject to the United States Interest Equalization Tax, effective March 18, 1968. The change in status of Husky shares was not retroactive and therefore none of our U.S. shareholders who acquired their common shares prior to the effective date have any liability for the tax.

Principally affected will be future transactions in Husky common shares which involve purchases by U.S. citizens or residents from citizens of another country. These transactions, which affect the United States balance of payments position, will be taxable. However, there continues to be an exemption for purchases by United States persons from other United States persons who establish that they acquired their common shares without liability for the tax. Trading among Canadian investors is unaffected by the tax, as are sales by United States persons to citizens of other countries.

GROWTH EXPENDITURES

	1967	1966
	(thousands of dollars)	
Exploration	$ 6,808	$ 2,430
Development and acquisition of producing properties and pipeline facilities	12,971	16,346
Refining, marketing and manufacturing	6,597	3,097
Drilling equipment	10,829	2,412
Investments and acquisitions of interests in subsidiaries	2,606	7,364
	$39,811	$31,649





HUSKY

CONSOLIDATED BALANCE SHEET

ASSETS	1967	1966
CURRENT ASSETS		
Cash and short term deposits	$ 10,500,069	$ 7,629,301
Marketable securities - at cost which approximates market	81,777	132,888
Accounts and notes receivable	13,360,419	12,324,856
Inventories at lower of cost or replacement market	13,127,627	12,709,785
Prepaid expenses	433,338	369,710
Total current assets	37,503,230	33,166,540
NON-CURRENT ASSETS		
Notes and contracts receivable, less amounts due within one year included in current assets above (including for 1967, $1,519,000 due in 1977 from a director and officer Note 5)	4,347,145	1,562,435
Investment in non-subsidiary company, at cost	2,801,601	2,801,601
Sundry investments and miscellaneous assets - at cost less amounts written off	1,703,851	1,387,591
	8,852,597	5,751,627
PROPERTY, PLANT AND EQUIPMENT - at cost (Note 2)		
Oil and gas properties and equipment	108,731,014	96,416,880
Refining, manufacturing, marketing, transportation facilities and other assets (including land of $5,696,793)	65,783,367	55,615,177
Drilling rigs and equipment	20,049,419	11,046,077
	194,563,800	163,078,134
Less - accumulated depreciation	42,490,146	39,496,159
- accumulated depletion	14,645,387	12,312,132
	57,135,533	51,808,291
	137,428,267	111,269,843
Less unpaid production payments	13,026,171	13,733,353
	124,402,096	97,536,490
OTHER ASSETS - at cost less amounts written off		
Debt discount and expense	1,599,233	952,203
Trademarks	590,001	590,001
Other intangible assets	3,933,734	3,465,308
	6,122,968	5,007,512
	$176,880,891	$141,462,169

Approved on behalf of the Board:

GENE E. ROARK, Director

F. R. MATTHEWS, Director

DECEMBER 31, 1967

(with comparative figures at December 31, 1966)

HUSKY OIL
Canada Ltd.
And Subsidiaries

LIABILITIES	1967	1966
CURRENT LIABILITIES		
Notes payable to banks	$ 2,688,500	$ 1,200,000
Accounts payable and accrued expenses	12,211,736	8,469,161
Dividends payable on preferred shares	264,426	266,447
Current portion of long term debt	7,266,401	4,448,087
Total current liabilities	22,431,063	14,383,695
DEFERRED INCOME	118,690	1,313,523
LONG TERM DEBT (Note 3)	74,006,607	50,973,319
NOTE PAYABLE (Note 4)	2,250,000	3,000,000
CAPITAL AND SURPLUS		
Minority shareholders of consolidated subsidiary companies		
Preferred shares (Note 5)	6,534,400	6,724,800
Common shares	174,825	273,522
Surplus	522,589	808,883
Total minority interest	7,231,814	7,807,205
Shareholders of Parent Company (Notes 5 and 6)		
Cumulative, redeemable, preferred shares par value $50 each;		
Authorized 1,000,000 shares;		
Series A, 6%,		
Issued and outstanding 65,068 shares;		
1966, 67,163 shares	3,253,400	3,358,150
Series B, 6%,		
Issued and outstanding 182,450 shares;		
1966, 188,240 shares	9,122,500	9,412,000
Series C, Convertible, 5¾%,		
Issued and outstanding 300,000 shares	15,000,000	15,000,000
Common shares, par value $1 each;		
Authorized 10,000,000 shares;		
Issued and outstanding 6,544,610 shares;		
1966, 6,431,476 shares	6,544,610	6,431,476
Subscribed for and allotted but unissued -		
100,000 shares @ $15.19 per share (Note 5)	1,519,000	—
Undistributable capital surplus arising from purchase and redemption of preferred shares	1,192,250	798,000
Other paid in capital	19,769,796	18,881,614
Retained earnings	14,441,161	10,103,187
Total capital and surplus of parent company shareholders	70,842,717	63,984,427
Total capital and surplus, including minority interest	78,074,531	71,791,632
Commitments and Contingencies (Note 6)		
	$176,880,891	$141,462,169

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1967 (with comparative figures for 1966)

	1967	1966
INCOME		
Sales and operating revenues (including $24,972,963 in 1967 and $7,290,373 in 1966 from steel fabricating and warehousing)	$ 90,196,953	$ 66,942,900
DEDUCTIONS		
Cost of sales and operating expenses (including $20,373,733 in 1967 and $5,990,921 in 1966 for steel fabricating and warehousing)	57,886,958	40,927,038
Selling, general and administrative expenses	9,513,719	6,536,132
Interest (net of interest income of $1,260,755 in 1967 and $516,337 in 1966) (Note 3)	4,486,434	3,068,147
Miscellaneous - net	(156,909)	(376,805)
Depreciation	5,660,182	5,318,181
Depletion	4,487,800	4,001,029
Foreign exploration costs	101,683	276,299
Minority interests in earnings of subsidiaries:		
Preferred share dividends	431,354	450,469
Profits	185,333	229,623
	82,596,554	60,430,113
Net earnings before special credit	7,600,399	6,512,787
Gain on sale of interest in phosphate leases (Note 4)	707,777	—
NET EARNINGS (Note 7)	$ 8,308,176	$ 6,512,787
Per common share (Note 8)		
Earnings before special credit	$ 0.90	$ 0.81
Special credit	0.11	—
Net earnings	$ 1.01	$ 0.81

CONSOLIDATED STATEMENT OF SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 1967

	Other Paid in Capital	Retained Earnings
Balance at beginning of year (from January 1, 1963 for Retained Earnings)	$ 18,881,614	$ 10,103,187
Add:		
Excess of consideration received over par value of common shares issued	902,674	
Net earnings for the year		8,308,176
	19,784,288	18,411,363
Deduct:		
Cash dividends on preferred shares		1,616,185
Cash dividends on common shares		1,934,542
Provision for redemption of preferred shares		419,475
Other items	14,492	
	14,492	3,970,202
Balance at end of year	$ 19,769,796	$ 14,441,161

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

FOR THE YEAR ENDED DECEMBER 31, 1967 (with comparative figures for 1966)

	1967	1966
Funds were obtained from:		
Net earnings including special credit	$ 8,308,176	$ 6,512,787
Add: Non-cash items - net	10,363,608	9,689,758
Net cash income from operations	18,671,784	16,202,545
Increase in long term debt - net of retirements of $9,348,477 in 1967 and $8,604,014 in 1966	20,266,565	2,783,115
Issue of preferred shares	195,000	14,328,561
Issue of common shares	1,015,808	457,102
Common shares subscribed for and alloted but not yet issued	1,519,000	—
Sale of fixed assets	1,619,994	758,192
Sale of investments	47,050	51,554
Increase in net current assets on acquisition of subsidiaries	—	4,639,064
	43,335,201	39,220,133
Funds were used for:		
Additions to property, plant and equipment	37,204,942	24,285,324
Additions to investments and other assets	728,001	2,950,152
Acquisition of interests in subsidiaries	1,877,879	4,413,450
Retirement of preferred shares	837,675	1,125,875
Dividends on shares of parent company		
Preferred	1,616,185	1,331,120
Common	1,934,542	960,552
Dividends to minority shareholders	431,354	450,469
Increase (decrease) in non-current notes receivable	2,130,848	(128,150)
Other	284,453	142,093
	47,045,879	35,530,885
Increase (decrease) in working capital	$ (3,710,678)	$ 3,689,248

See accompanying notes to financial statements.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Husky Oil Canada Ltd. and subsidiaries as of December 31, 1967 and the consolidated statements of earnings, surplus and source and use of funds for the year then ended. Our examination of the financial statements of Husky Oil Canada Ltd. and those subsidiaries of which we are auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the financial statements of one subsidiary company.

In our opinion, these financial statements present fairly the financial position of the company and subsidiaries at December 31, 1967 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Chartered Accountants

Calgary, Alberta

February 22, 1968

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) The consolidated financial statements include all subsidiary companies. Statements of operations include the operations of Gate City Steel Corporation from August 31, 1966, the date on which it became a subsidiary. The accounts of United States subsidiaries are included at $1.00 U.S. = $1.00 Canadian except for Canada - United States intercompany accounts.

(2) All costs and expenses of exploring for and developing oil and gas reserves in Canada and United States are capitalized. The investments in oil and gas properties, including properties held for exploration, are being depleted on composite unit of production methods based on proved developed oil and gas reserves.

The cost of certain oil and gas properties includes the amounts of retained production payments payable solely from production. Since the production payments are considered liens against the properties and are not a direct liability, the unpaid balances are shown as deductions from the property, plant and equipment accounts on the balance sheet. Production income dedicated to these payments is included in the earnings statement on a gross basis so as to reflect the gross income and all expenses applicable to the properties. An alternate method of accounting for such production payments (the net method) includes in cost of the properties the purchase price exclusive of the amounts of retained production payments and does not include in the earnings statement production income dedicated to the payments. Selection of the gross method of accounting for retained production payments has increased (decreased) the following accounts on the statement of earnings by the amounts shown:

Sales and operating revenues	$1,605,000
Depletion	1,014,000
Interest	688,000
Net earnings	$ (97,000)

Effective October 1, 1966, the estimated useful life of refinery facilities was changed from 10 to 16 years. This change resulted in a decrease in the provision for depreciation of such facilities of $110,000 for the last three months of 1966 and of $506,000 for 1967.

(3) Long-term debt (partly secured) at December 31, 1967 consisted of:

	Husky Oil Canada Ltd. and Canadian Subsidiaries (Cdn. $)	Husky Oil Company and Subsidiaries (U.S. $)
6% Sinking Fund Debentures Series A due November 2, 1984	$17,643,000	$
6-3/4% Sinking Fund Debentures Series B due February 1, 1987	19,941,000	
5-1/2% to 6-1/4% secured notes and debentures maturing from 1970 through 1975	7,332,424(1)	16,748,445
6% Secured Instalment Note due December 31, 1970		1,780,000
5-1/2% to 6-1/8% Secured Lease Purchase Contracts due 1970 and 1975		5,432,522
7-1/4% Term Bank Loan due November 13, 1972	2,500,000	
Other secured notes and contracts of varying maturities	102,415	1,260,868
Unsecured notes and contracts of varying maturities	4,869,232(2)	3,663,102
	52,388,071	28,884,937
Less amounts due within one year	2,930,420	4,335,981
	49,457,651	$24,548,956
U.S. subsidiaries	24,548,956	
	$74,006,607	

(1) including $6,677,424 payable in U.S. funds of $6,201,749.

(2) including $880,263 payable in U.S. funds of $819,326 and $3,436,160 payable in U.K. funds of £1,321,600.

Interest on long term debt in 1967 was $5,625,787.

Certain properties and other assets having an aggregate cost of approximately $49,000,000 are specifically mortgaged or pledged as collateral for production loans and other secured obligations.

(4) The note payable of $2,250,000 is due on June 30, 1968. Unless a prior sale of certain phosphate deposits is arranged, the note will be paid on maturity by assignment of an additional 40% interest in the phosphate deposits (a 25% interest having been assigned to the lender on December 29, 1967, for $750,000, resulting in a gain of $708,000) and the issue of a promissory note for $1,050,000 maturing January 10, 1969. This note may also be paid on maturity by assignment of the remaining 35% interest in the deposits. The notes bear interest at 7%.

(5) In 1967, 113,134 common shares were issued for $1,015,808 on exercise of stock purchase warrants and stock options.

On May 26, 1967, 100,000 common shares were allotted to Gene E. Roark at $15.19 per share, paid by acceptance of his promissory note for $1,519,000 due on May 26, 1977. Listing requirements of the stock exchanges upon which the common shares are traded included ratification by the shareholders of the subscription agreement, and accordingly, with approval of Mr. Roark, issue of the shares has been deferred until after the Annual General Meeting in 1968.

The terms of issue of the preferred shares provide for annual sinking fund provisions sufficient to retire 2,100 Series A shares at $53.50 per share and 5,850 Series B shares at $52.50 per share. On December 22, 1967, notice of redemption of all of the Series C convertible preferred shares was given, and subsequent to December 31, 1967, 997,755 common shares were issued on conversion and $34,000 was paid in cash.

Subsidiary companies will be required to redeem preferred shares of a par value of $449,300 in 1968.

At December 31, 1967, there were Series D stock purchase warrants outstanding permitting the purchase of 403,242 common shares at prices escalating from $10.50 to $16.50 per share, expiring June 30, 1974.

At December 31, 1967, common shares were reserved for issue pursuant to a share option plan for officers and employees. Information as to options exercised or cancelled during 1967 is as follows:

	Number of Shares	Option Price per Share
Under option at December 31, 1966	182,650	$4.10 to $12.94
Options exercised	80,004	$4.10 to $12.94
Options cancelled	9,166	$6.77 and $12.94
Under option at December 31, 1967	93,480	$4.10 to $12.94

These options are now or will become exercisable during the years 1968 to 1975.

(6) Under the terms of an agreement dated July 16, 1966, Husky Oil Company is committed to purchase additional non-voting shares of a non-subsidiary company in January, 1969, for a consideration of $2,292,000.

The Company and its subsidiary companies have entered into long term agreements to lease items of property, plant and equipment at fixed annual rentals which aggregate $2,125,000, including $1,175,000 for royalty free oil and gas rights in the Lloydminster area.

The Company may be required to purchase bonds of a pipeline company (in which a subsidiary is a shareholder) to a maximum amount of $2,000,000.

On February 6, 1968, Husky Oil Company acquired an approximate 10% interest in two oil and gas leases off the shore of California, at an aggregate cost of approximately $8,000,000.

On February 15, 1968, the Company acquired all of the assets of The Frontier Refining Company (an integrated oil company operating in the Rocky Mountain region of the United States), in exchange for 740,392 common shares and the assumption of all of the debts and liabilities of Frontier. Computed on the basis of the closing price on the American Stock Exchange on February 15, 1968, the common shares had a value of $14,253,000 U.S.

Subject to fullfilment of certain conditions, the Company has agreed to acquire all of the issued and outstanding shares of three corporations which distribute asphalt products in Washington, Idaho and Colorado, for a consideration of 86,337 common shares of the Company valued at $17.50 U.S. per share.

The Company was committed under certain construction contracts aggregating approximately $12,500,000, of which approximately 15% remained incomplete and unbilled at December 31, 1967.

(7) No provision has been made for federal taxes on income, since neither the Company nor its subsidiaries has any liability for such taxes.

(8) Earnings per common share are based on the 6,544,610 common shares issued and outstanding at December 31, 1967, plus the 100,000 shares allotted to Gene E. Roark in May, 1967.

No material dilution of earnings per share would result if all outstanding options, warrants or conversion privileges were exercised, based upon a 6% interest factor.

(9) In 1967, the remuneration paid to or accrued for directors and senior officers was $368,842 of which $20,800 was paid as director's fees.

FINANCIAL AND OPERATING SUMMARY

FINANCIAL (thousands of dollars)	1967	1966	1965	1964	1963	1962	1961	1960
Gross operating revenues	$90,197	$66,943	$53,237	$50,524	$45,979	$40,708	$37,865	$38,271
Costs and operating, selling and general expenses	67,401	47,463	37,544	38,416	36,881	32,964	31,642	31,755
Interest (net of interest income)	4,486	3,068	2,101	1,479	1,432	1,348	1,604	1,373
Miscellaneous - net	(157)	(376)	213	118	(207)	(100)	(540)	66
Depreciation, depletion and amortization	10,148	9,319	7,318	6,100	5,071	4,305	4,637	4,415
Exploration costs and overhead	102	276	107	83	—	1,696	1,230	2,916
Minority interests in earnings of subsidiaries	617	680	852	809	569	396	461	(39)
	82,597	60,430	48,135	47,005	43,746	40,609	39,034	40,486
Net earnings (loss) before special credit	7,600	6,513	5,102	3,519	2,233	99	(1,169)	(2,215)
Add: Special credit	708	—	—	—	—	—	—	—
Net earnings (loss)	$ 8,308	$ 6,513	$ 5,102	$ 3,519	$ 2,233	$ 99	$ (1,169)	$ (2,215)
Working capital	15,072	18,783	12,094	19,404	12,578	11,069	11,851	8,924
Long term debt (including deferred income)	74,125	52,287	43,830	47,905	36,761	26,136	28,295	29,686
Preferred shares outstanding at par value	27,376	27,770	13,171	13,568	3,568	3,568	3,568	3,568
Preferred share dividends	1,616	1,331	807	514	214	214	214	214
Common shares outstanding, at par value $1 per share	6,644	6,431	6,244	6,208	6,169	6,123	6,091	5,842
Earnings per common share after preferred dividends	$ 1.01	$ 0.81	$ 0.69	$ 0.48	$ 0.33	$(0.01)	$(0.21)	$(0.41)

OPERATING	1967	1966	1965	1964	1963	1962	1961	1960
Production — Daily Average								
Net crude oil and equivalent gas production — barrels	29,648	25,532	20,181	16,765	12,920	11,088	10,074	9,477
Crude oil and gas liquids production — barrels	26,197	22,178	17,463	14,312	10,796	9,163	8,697	8,674
Natural gas production — MCF	45,828	44,518	35,173	32,000	27,998	25,521	18,573	11,435
Refining and Marketing — Daily Average Barrels								
Crude oil processed	20,248	18,387	16,929	15,789	17,263	17,231	16,396	14,000
Refined product sales	21,750	19,323	18,295	18,343	19,302	17,293	16,100	15,921

HUSKY

HUSKY

MARKETING SERVICE OUTLETS

N U.S.A. AND CANADA

LEGEND

● Husky, Frontier and Beeline service outlets

(10) Locations having more than one Service outlet

HUSKY HUSKY OIL

HUSKY - Its Foundation and Future

AN ADDRESS BY

G. E. Roark

PRESIDENT, HUSKY OIL

TO

The Toronto Society

of

Financial Analysts

Toronto, Canada

December 13th, 1967

HUSKY - Its Foundations and Future

I want to thank you very much for the opportunity to speak to you today. It is particularly timely for me to discuss the current status of Husky and its prospects for growth, since I just assumed the presidency of Husky on September 1 this year.

Presidents of Canadian oil companies appear to be currently in demand on the speaking circuit. I suspect this has occurred, not because we are particularly entertaining, but because we have a vital subject—the Canadian oil industry and its future.

In an excellent speech given to your Society this February, Mr. J. P. Gallagher, President of Dome Petroleum Limited outlined the vast and fruitful hunting ground for oil and gas in western Canada. In comparing figures between Canada and the United States, he pointed out that over the last five years in Canada more oil has been found per exploratory foot drilled at less cost.

Because of Mr. Gallagher's presentation, I will not dwell on the industry picture, but rather will outline what is going on today within the Husky organization as an important part of that picture.

My presentation will be divided into six major topics:

1. The Lloydminster Project
2. Exploration and Production
3. Acquisitions
4. Subsidiaries
5. Management
6. Outlook

THE LLOYDMINSTER PROJECT

Lloydminster is not a single oil field but a large area of prolific shallow oil accumulation which is roughly 100 miles east-west by 65 miles north-south. It contains about 1,400 wells capable of production in nine major oil fields and innumerable minor oil-producing accumulations.

This large oil-producing region has long been the focal point of Husky's Canadian exploration and producing activity.

At the start of the 'sixties, Husky was sitting on hundreds of millions of barrels of superior asphaltic crude reserves at Lloyd-

minster. The company looked to the burgeoning eastern markets for this kind of heavy crude, but the oil was too viscous to move in pipelines to these markets. The obstacle barring Husky from exploiting these vast reserves was the inability to reach the volume markets in the mid-West and East.

This obstacle was overcome by Husky's engineers. In 1963 they built a reversible pipeline from Lloydminster to the Interprovincial Pipeline at Hardisty. It was nick-named the "yo-yo" pipeline and, as its name implies, it was capable of pumping both ways. We brought condensate from Hardisty to Lloydminster — blended it with the Lloydminster crude and then pumped the blend back to the Interprovincial line. Blend sales, which were non-existent before this project, averaged 18,000 barrels per day in October, with 70% of this being made up from our own production.

The vast crude reserves of the Lloydminster region are now available in growing quantities to the eastern United States and Canadian asphalt markets. The first pipeline was so successful that another one was built, and yet another — to either Hardisty or Edmonton — is now on the drawing board.

This giant step forward caused a dramatic change. Husky's oil production from Lloydminster leaped from 1,600 barrels per day in 1963 to 10,700 barrels per day in October. The number of wells drilled by Husky in the Lloydminster region since 1962 is 650, making us the most active company in oil-well drilling in western Canada. Eighty-three per cent of the wells have been successfully completed as producers.

With volume markets on tap, Husky's next step was a logical one—to strengthen land ownership in the Lloydminster region. This led to the deal with Canadian Pacific Oil and Gas which, coupled with other land we owned, gave us leasehold or mineral interests in 1,700,000 acres and effective control of more than 4,000,000 acres — much of which is known to be commercially productive of oil in the shallow horizons.

The demand for our asphaltic crude caused by the opening of eastern markets, threw into sharp focus the fact that past production techniques had left 95% of the oil in the ground. Clearly, a major investment in research and development work was needed to get more oil to the surface.

At this point, Husky looked towards the pioneering oil recovery techniques taking place in heavy oil in the Wilmington

Oil Field at Long Beach, California. This is one of the largest waterflood operations in the world, where water is being injected into the ground to drive out oil which is similar in characteristics to the crude at Lloydminster. Applying technology observed there, Husky first undertook similar projects on an experimental basis and confirmed the application of the process to Lloydminster.

We now have a waterflooding program installed on a large scale in the Aberfeldy Unit, in Lloydminster. The dramatic effect of the operation in the Aberfeldy Unit is demonstrated by the fact that production has increased to an average of 80 barrels per day per well in a region where, ~~formerly, we would have been pleased with 36 barrels per day~~. 30-35

The project has been so successful that a major expansion has been completed bringing 6,080 acres of the Aberfeldy Unit under this form of operation, and a similar project has been installed in the Epping Unit. We believe that this technique will have broad application throughout the Lloydminster area and will result in the drilling of fewer wells to recover more oil at higher rates and at lower cost per barrel than ever before.

Even with this process a tantalizing amount of the oil will remain in the oil sands at Lloydminster. Our engineers believe that the most sophisticated way of improving recovery in the Lloydminster field will be some form of heat application to the oil in the ground.

An experimental project is going forward in which steam is generated on the surface and injected into selected wells with the result that the oil in the ground is both heated and driven towards other wells which are on production. Although it is too early to evaluate the full economic success of this project, a substantial degree of oil stimulation has been observed.

Rumours circulated about a year ago to the effect that the steam project was a failure, were early premature. At that time the only significant conclusion was that waterflooding was the most certain method for the economic stimulation of oil production.

We have plans to undertake an in-situ combustion project in which the oil in the ground will be ignited to create intense heat and gaseous products, which will drive the oil out of the reservoir.

wells

Husky, with its enviable amount of heavy crude oil reserves at Lloydminster, is advancing almost daily its knowledge of engineering techniques by which more of its reserves can be extracted.

Cash operating income from the Lloydminster Project, net of direct expenses, will be about $5,000,000 in 1967. Capital investment for the year should total $7,000,000. We forecast in 1968 that cash operating income will exceed capital investment, and Lloydminster will become a cash flow contributor to Husky instead of a consumer.

The economic success of Lloydminster justifies the faith of our Chairman Glenn E. Nielson in the area and in the future of black oil and asphalt.

EXPLORATION AND PRODUCTION

Husky's commitment of capital resources to the Lloydminster project led to its not being considered an active "exploration" company in the usual sense. By necessity, exploration has been largely confined in the past few years to the Lloydminster area itself. Now that we expect cash flow from Lloydminster, we are mounting an exploration program outside the area.

This change is sharply underlined by the fact that we have requested 10 million dollars for exploration in 1968, an increase of 50% over the amount spent on exploration this year.

Although a long-range exploration program will require Husky to initiate its own plays based on geologic studies and land acquisitions, our immediate program is to take farm-outs and participate with others in exploration plays.

Early this year Husky joined in a partnership with Columbian Northland Exploration Ltd., for the purpose of exploration on prospects farmed out from other companies.

The first exploratory well drilled in this program has been successfully completed as a gas producer in the Mississippian formation at Quirk Creek, which is located near Turner Valley in southern Alberta. This is a major sour gas discovery. Husky has a 24% working interest in 8,160 acres and the option to earn a similar interest in an additional 15,200 acres. At present a second well is being drilled about 1¼ miles from the original discovery well.

The second exploratory prospect drilled in the Columbian program was at Nell, which is in the Gold Creek - Simonette trend, west of Edmonton. This resulted in a major wet gas discovery on 10,880 acres in which we own a 52½% working

interest. Husky is participating with Columbian in a third well at Monkman Pass, now drilling on one of the largest structures in the eastern foothill region of British Columbia.

In July, Husky joined Ranger Oil and others in bidding \$2,150,000 for a 320-acre Crown Lease in the Rainbow area. The first well drilled on this lease, in which Husky owns a 27½% working interest, was completed last month in a pinnacle reef of the Keg River formation and has a flow potential of several thousand barrels per day.

In February, Husky successfully bid on a 7,040-acre Crown drilling reservation in north-west Rainbow, which will be drilled ~~this winter.~~

In the United States, Husky holds a net acreage of 11,703 acres in the Bell Creek field of southern Montana, which is one of the "hottest" exploration plays in the United States. Husky has participated successfully in the drilling of 13 producing wells and is conducting a continuous drilling program.

We have started the 50 well exploratory program in the Lloydminster area. These wells will evaluate the deep formations not previously drilled.

ACQUISITIONS

Frontier Refining Company shareholders have approved, subject to a favourable ruling from the U.S. Internal Revenue Service, a merger under which Husky will take over all the assets and assume all the liabilities of Frontier. When consummated, Husky will issue one share of Husky common for each two and one-half shares of Frontier, calling for 740,000 shares—slightly more than 10% of our common stock which would be outstanding upon completion of the deal.

The acquisition will bring Husky's refining and marketing capacity to more than 45,000 barrels per day compared with our current capacity of 21,000 barrels per day. In the first full year of consolidation, the company's gross revenue will be increased by about 40 - 50% to 130 - 140 million dollars a year.

When the consolidation of these two refining and marketing operations is fully accomplished, it will add substantially to Husky's cash flow and net profit. Our forecasts indicate that there will be some increased earnings per share in the first year, increasing

in future years, as Husky benefits from the economics of scale in refining and marketing.

The merger will more than double our refining and marketing volume and, likewise, will more than double our retail outlets to more than 1,500 in 17 states and five provinces.

SUBSIDIARIES

Husky (Alberta), a wholly-owned subsidiary of Husky, is in the process of completing a $10,000,000 jack-up drilling rig in Scotland. Around the end of this year the rig will begin drilling in the North Sea under a three-year contract with Gulf.

In addition, Rimrock Drilling, another wholly-owned subsidiary, recently signed a contract and has put a rig to work on a Phillips platform in the North Sea.

Two of the drilling rigs owned by Rimrock Tidelands and operating in the Gulf of Mexico have been idle for several months resulting in reduced earnings in this subsidiary. All this equipment is back at work at this time. The North Sea drilling activities will create a substantial new cash flow and improve 1968 earnings from drilling operations over this year.

Gate City Steel Corporation, 82% owned subsidiary of Husky, enjoys a strong internal management and minimum supervision by Husky is required. Growth prospects are steady. We expect a a 30% increase in profits next year. These profits are now consolidated with those of Husky.

Husky Briquetting, Inc., represents a relatively minor part of our total activity. Sales are up about 45% over 1966 and we expect this operation to move into a profit position this year.

Perhaps the most sensational activity of a subsidiary nature is our 50 per cent participation with Marathon Realty in the Husky Tower, a 613-foot high restaurant and observation tower being erected next to Calgary's Palliser Hotel on prime downtown land.

The Tower is a deliberate and already successful part of our advertising program. It is, in effect, a permanent promotion and with our partner, Marathon Realty, we expect a satisfactory rate of return on our investment.

MANAGEMENT

In my brief tenure as president, it is already apparent to me that an active and aggressive Husky management team is producing very satisfactory results.

Tom Wise has been made responsible for all Refining, Marketing, Supply and Distribution and will become the lead man in the management of Frontier. Financial responsibilities have been consolidated under Arnold Larsen, Production and Pipelines come under M. F. Westfall and Exploration activities are currently under my own supervision.

High speed electronic computers are an important management tool in Husky. Our management information system includes long - distance, on - line data transmission to the computer. This system also provides for timely exception reports to production, refining, marketing and steel managements on more than 1,000 profit centres. These computer reports identify revenue, expenses and operating profits and bring to management's attention those profit centres whose ~~profits~~ vary from budget by 10% or more.

We use computers, too, for budgeting and long-range forecasting. We have a corporate model which evaluates the many different courses of action available to an integrated company. The model provides pro-forma balance sheets, capital requirements, earnings results and Canadian and U.S. tax implications, plus other useful decision-making information, over a five-year period.

Computer models are being used to simulate the complex interactions between refining, marketing and transportation to help us identify quickly those areas where we can increase profits.

Under contract with geophysical companies, all of our current seismic data is being processed digitally on a high-speed computer.

OUTLOOK

Being an integrated Canadian oil company and sitting astride the border with almost equal cash flow and profit contributions from both sides of that border, Husky is in a unique position among independent oil companies. We have many opportunities to apply our investment policies so as to create optimum profits between the Canadian and United States operations. Being in both places, Husky can and does enjoy an exceptional flexibility.

The outlook is good.

The Lloydminster project, coupled with our success in exploration and improvement in production techniques in other areas, will push our oil and equivalent gas production to above 30,000 barrels per day by this year-end. This is up from 9,500 barrels per day in 1960 when the U.S. and Canadian companies merged.

Heavy oil is becoming more glamorous with technological advances in recovery processes and refining techniques. Here again, Husky is riding well ahead of the pack.

Our exploration successes this year have encouraged us to increase our exploration budget in 1968.

Although the performance of our subsidiaries continues to be mixed, we are streamlining management and we anticipate a steady improvement in each of these companies.

We expect our gross revenue next year to be in the vicinity of 130 - 140 million dollars. Our cash flow should be around 25 million dollars or over $3.00 per share. Our earnings should increase by about 20 per cent next year, providing about $1.10 to $1.20 per share.

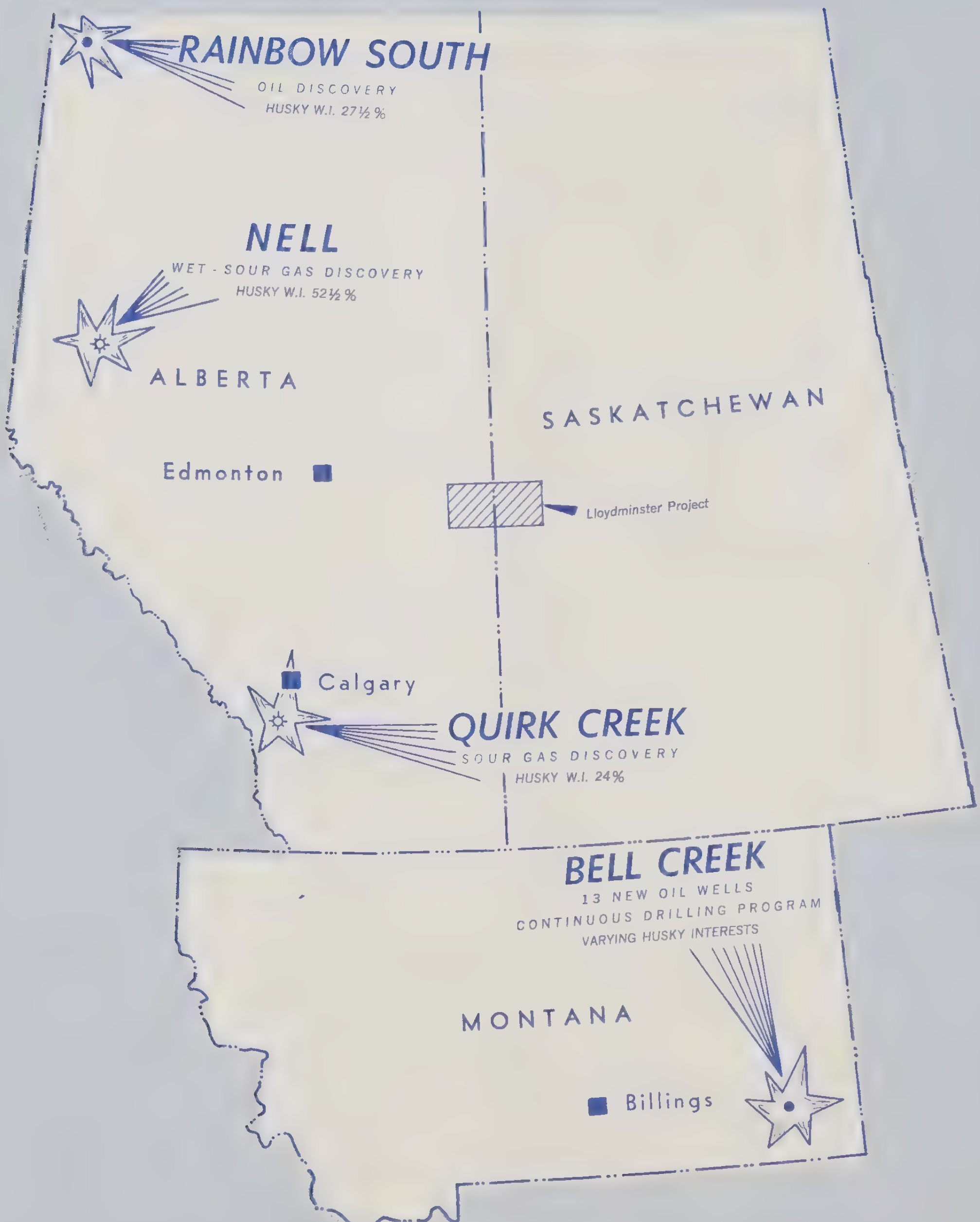
Our preliminary estimate of capital expenditures next year shows about 30 million dollars with roughly half of this devoted to exploration and development. Our existing lines of bank credit, over and above working capital, total about 28 million dollars, which is more than adequate to carry out our program for 1968.

Our top and middle management is highly competent and aggressive. Labour relations have been, and are, good. Our goal is to continue to build an intensely competitive, integrated oil company and to do this we shall support our manufacturing, distribution and selling with an adequate backlog of oil and gas reserves and producing capacity.

We have all the ingredients needed for planned expansion at an accelerated pace. In simple language, gentlemen, I believe that Husky Oil is poised and ready to take off.

27-1

IMPORTANT EXPLORATORY SUCCESSES IN 1967



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AR28

HUSKY

A QUICK REFERENCE

13 DECEMBER 1967

HUSKY FACTS

ACTIVITIES:

The Company is an integrated oil company with operations in Canada and the United States. Other interests include contract drilling, steel fabricating and briquetting.

No. of Shareholders	14,657
No. of Employees	807
Production:	
Oil and equivalent gas expressed in barrels per day	30,000
Refining Capacity in barrels per day	21,000
Retail Outlets	759
1966 Gross Sales	$66,943,000
Net Earnings	$ 6,513,000
Per Share	81¢
Semi-annual Dividend	15¢
Working Capital	$15,783,000

Shares Listed: Toronto, Montreal,
American, Amsterdam
Stock Exchanges

Glenn E. Nielson

Gene E. Roark

CORPORATE HISTORY

Husky Oil was founded in 1938 by Glenn E. Nielson at Cody, Wyoming. Its total assets were a small 1,000 barrels per day refinery, an oil lease yielding less than 400 barrels per day and 19 employees.

The Company concentrated its efforts in producing high grade quality asphalt products—a field in which few others specialized.

A year after it was founded Husky became a fully integrated oil company by making its debut as a marketer of gasoline and light oil products. Later Husky pioneered high gallonage, super truck stops on main highways.

In 1947 Husky formed a subsidiary in Canada and built a refinery at Lloydminster. The shares of the subsidiary were spun off in 1953 and it became a publicly owned Canadian company.

In 1960 the two Husky companies merged to form one corporate entity.

Glenn E. Nielson, the founder of the company, is now the Chairman of the Board and Chief Executive Officer. Gene E. Roark was appointed President of Husky in September 1967 after having been a director since 1964.

FINANCIAL SUMMARY

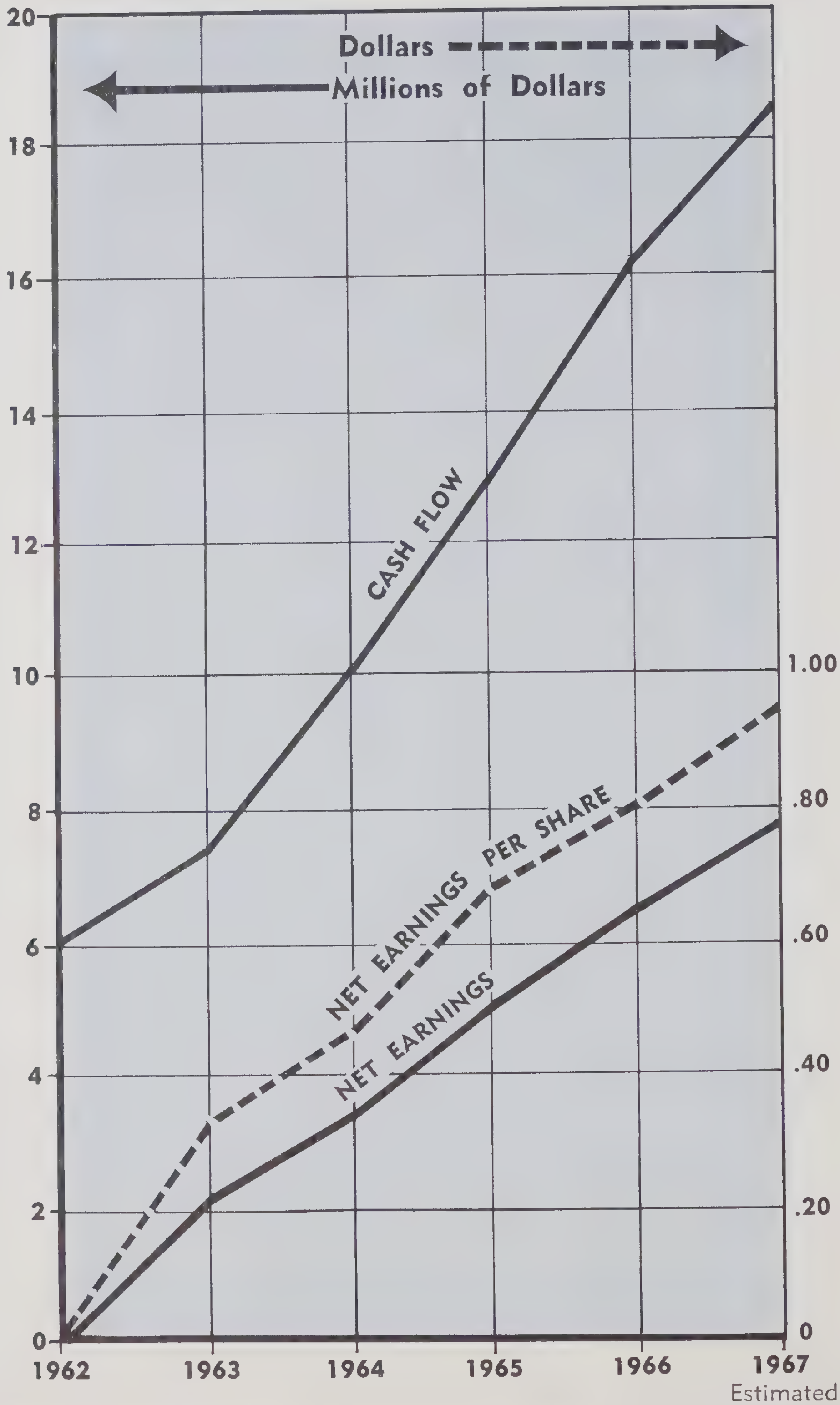


CHART REVIEW

The chart at left reflects the significant increase in cash flow, net earnings and net earnings per common share since 1962. For 1967 we estimate cash flow at about \$2.50 - \$2.60 per common share and net earnings of about 95¢ per common share.

Gross operating income (not shown) has increased from \$41 million in 1962 to an estimated \$90 million in 1967, an increase of 119%.

On page 5, the chart shows that Husky's total production will have nearly tripled in the six-year period ending in 1967. Total Canadian production (including Lloydminster) has shown a dramatic increase in comparison with the U.S. where the production level has remained relatively constant.

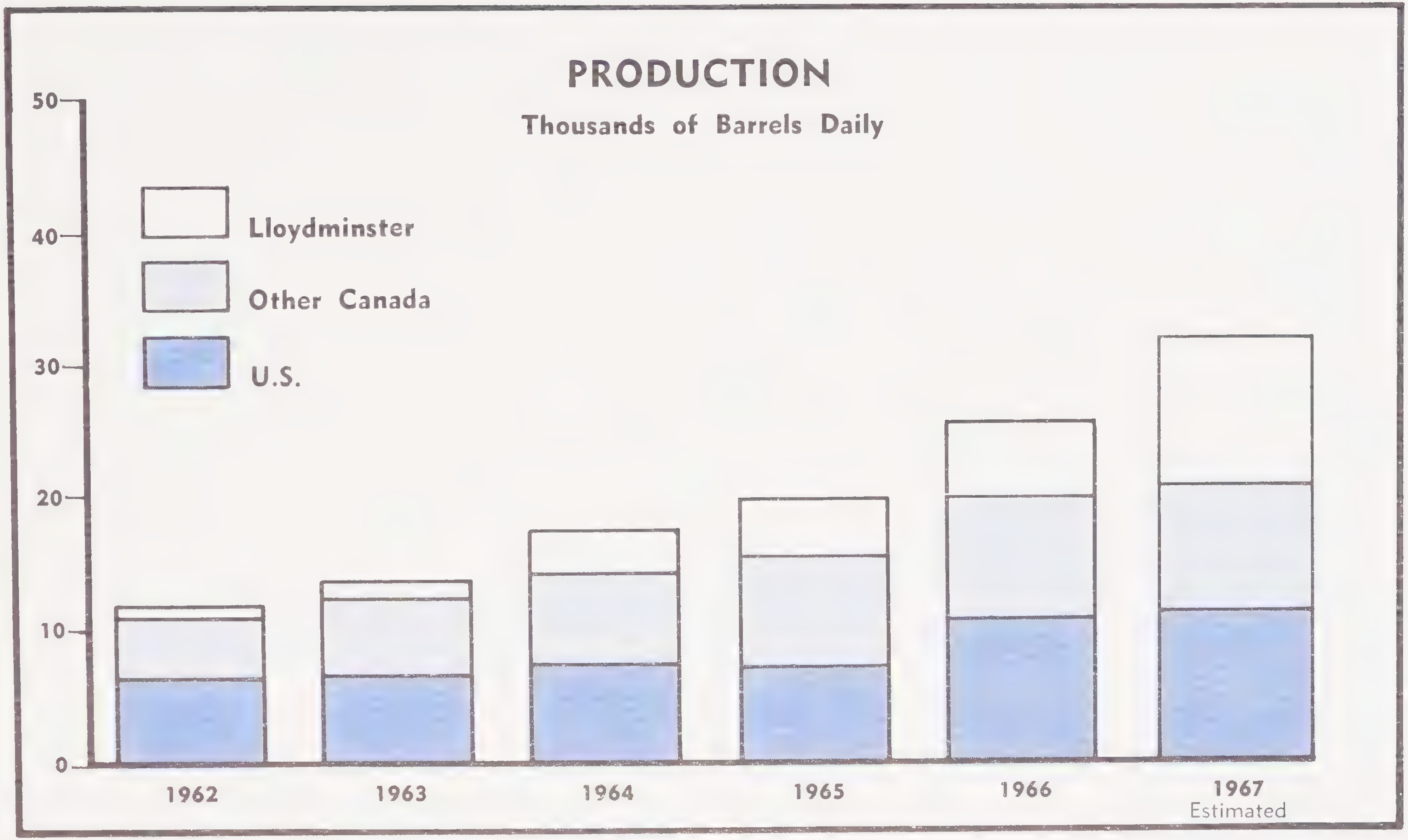
The chart on page 7 shows our total refining operations since 1962. The three refineries at Lloydminster, Alta.; Moose Jaw, Sask.; and Cody, Wyoming have full refining capacities per day of 6,500 barrels, 3,500 barrels and 11,000 barrels respectively.

Light oil products referred to on page 9 include gasoline, distillate and liquid petroleum gases, and heavy oil products include asphalt and residuals. It is interesting to note that, while marketing volumes dipped after 1963 and recovered by 1966, Husky recorded a 35% gain in departmental cash flow — by changing the sales mix and deleting marginal gallons to maximize profits.

The bar chart on page 11 shows how Husky's reserves have grown since 1962. The main area of growth has been in the Lloydminster field, where Husky has concentrated its efforts.

Page 12 throws into focus Husky's recent entry into offshore drilling in the North Sea with the construction of the Gulftide in 1967. It also reflects the increase in exploration expenditures with Lloydminster about to change from a cash claim to a cash flow. In 1968 we anticipate that our exploration budget will increase substantially, perhaps by as much as 50%.

Husky's Quirk Creek well.

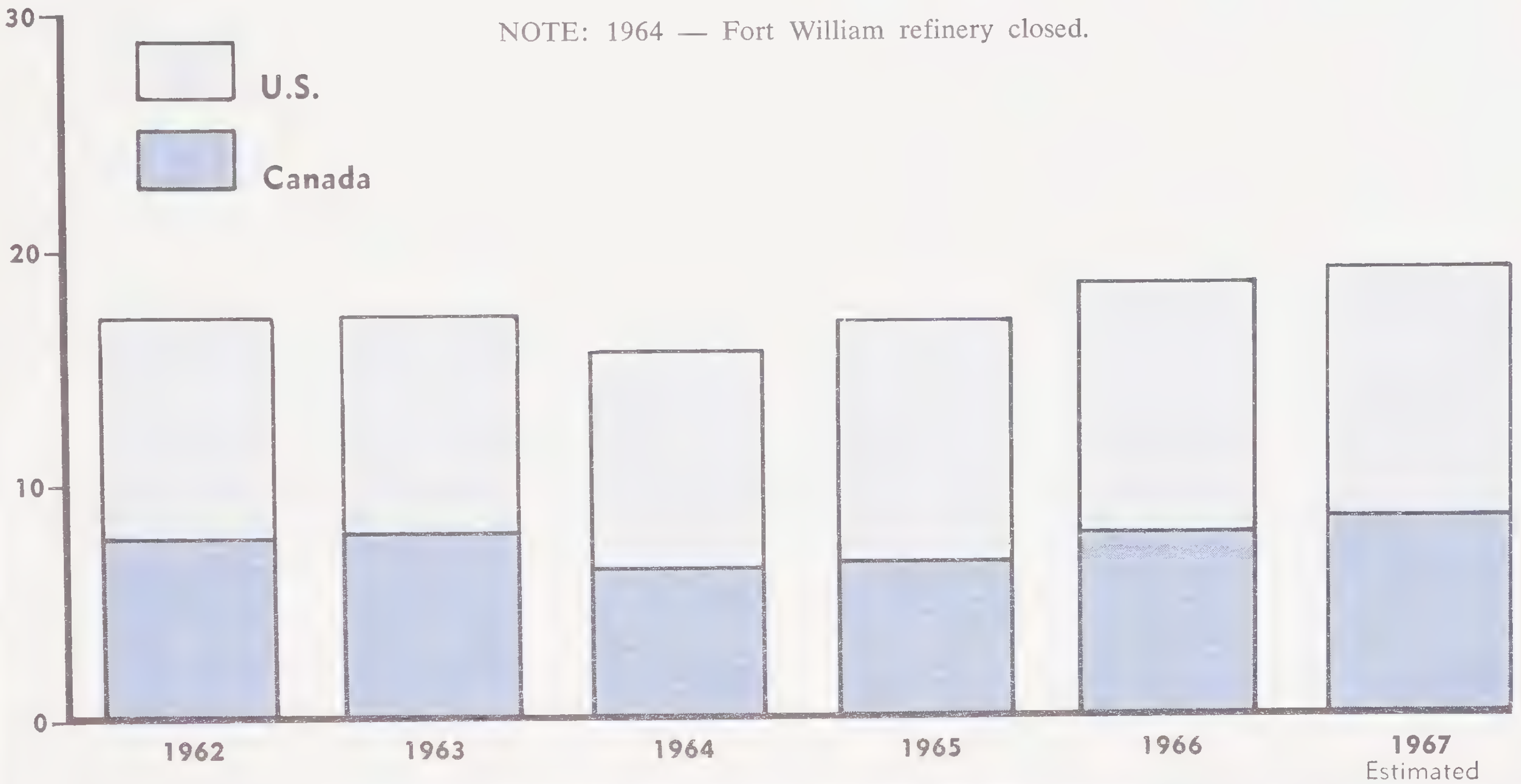

PRODUCTION
Thousands of Barrels Daily
Lloydminster
Other Canada
U.S.
50
40
30
20
10
0
1962
1963
1964
1965
1966
1967
Estimated

Husky's Cody refinery.

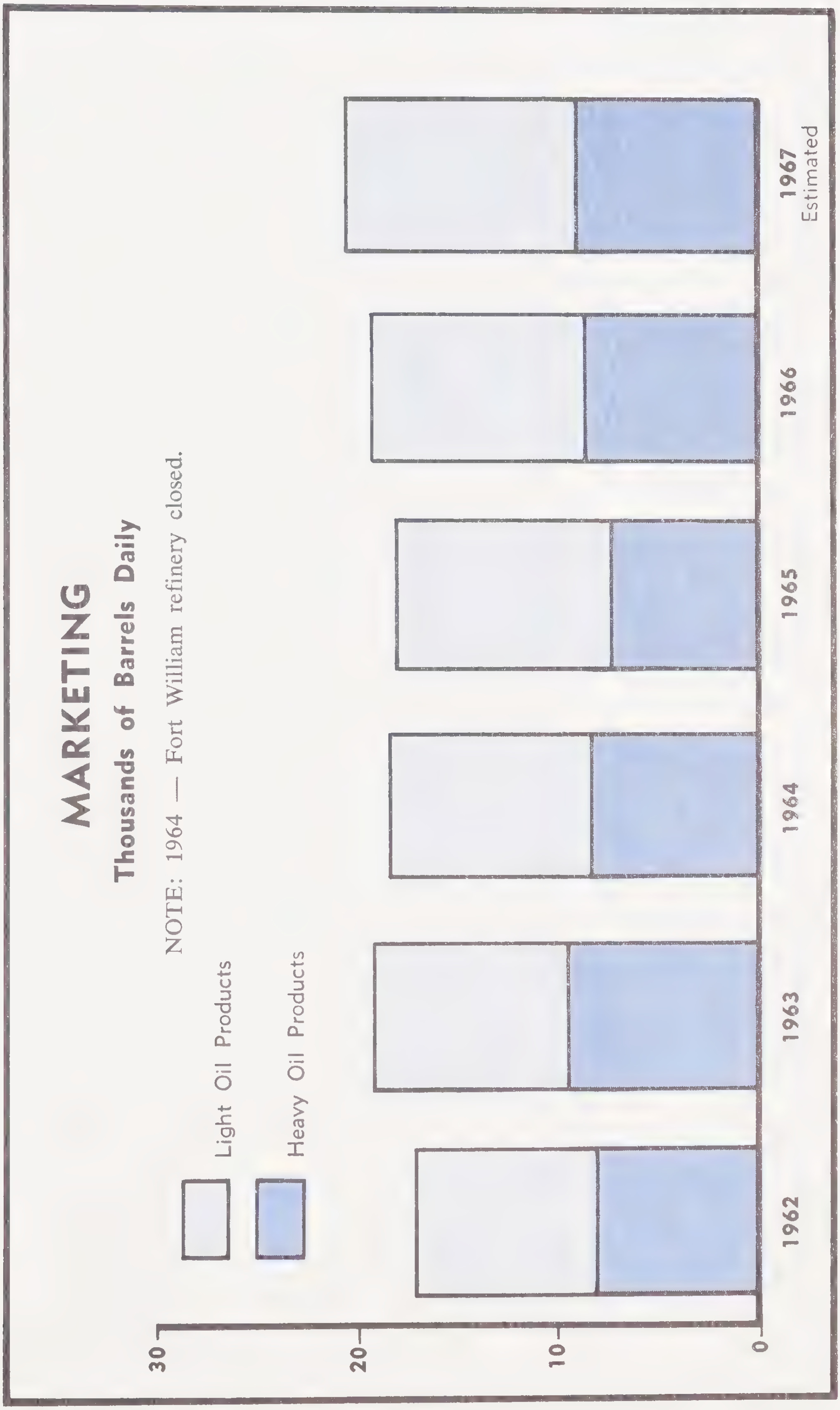
REFINING

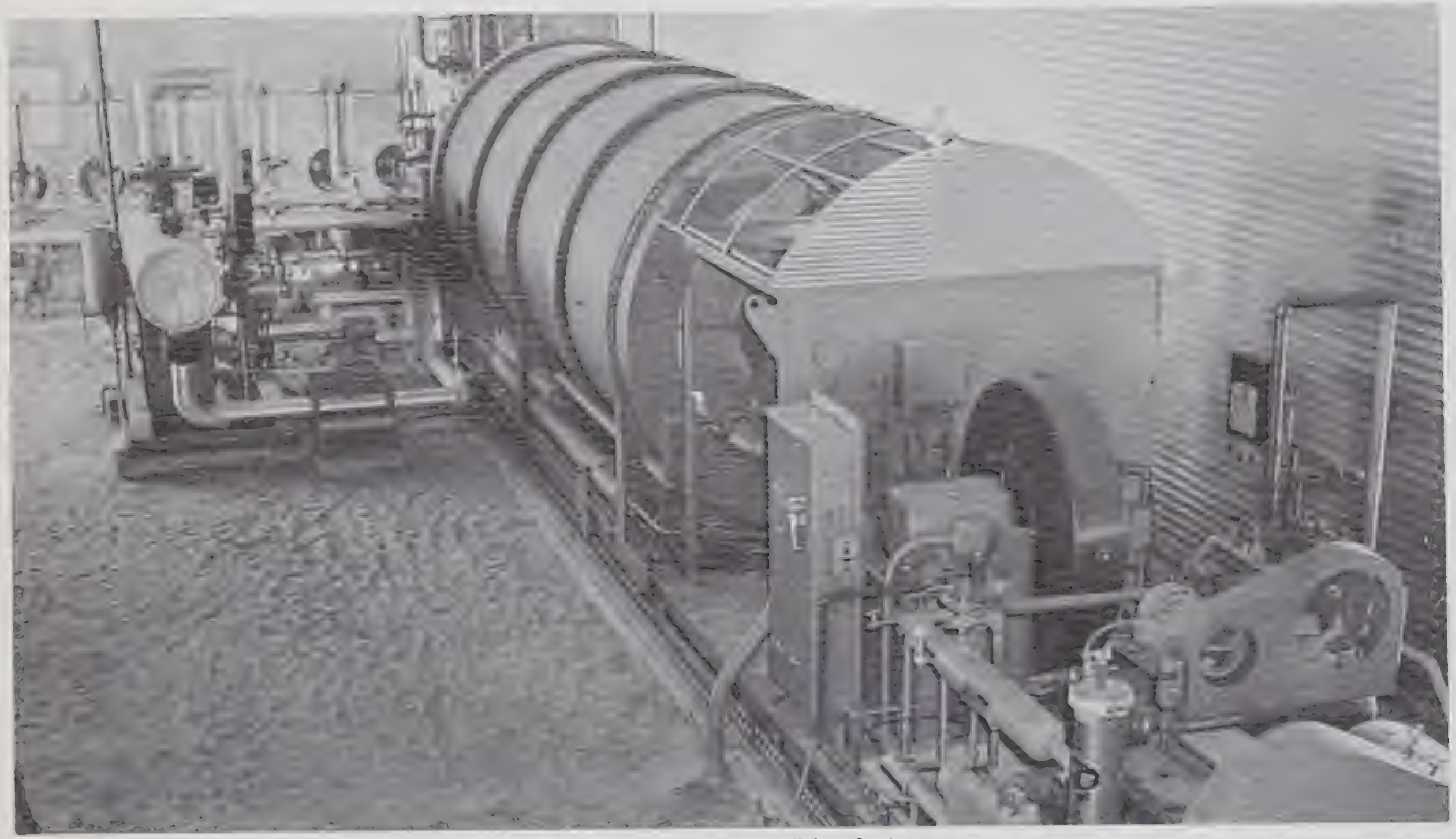
Thousands of Barrels Daily

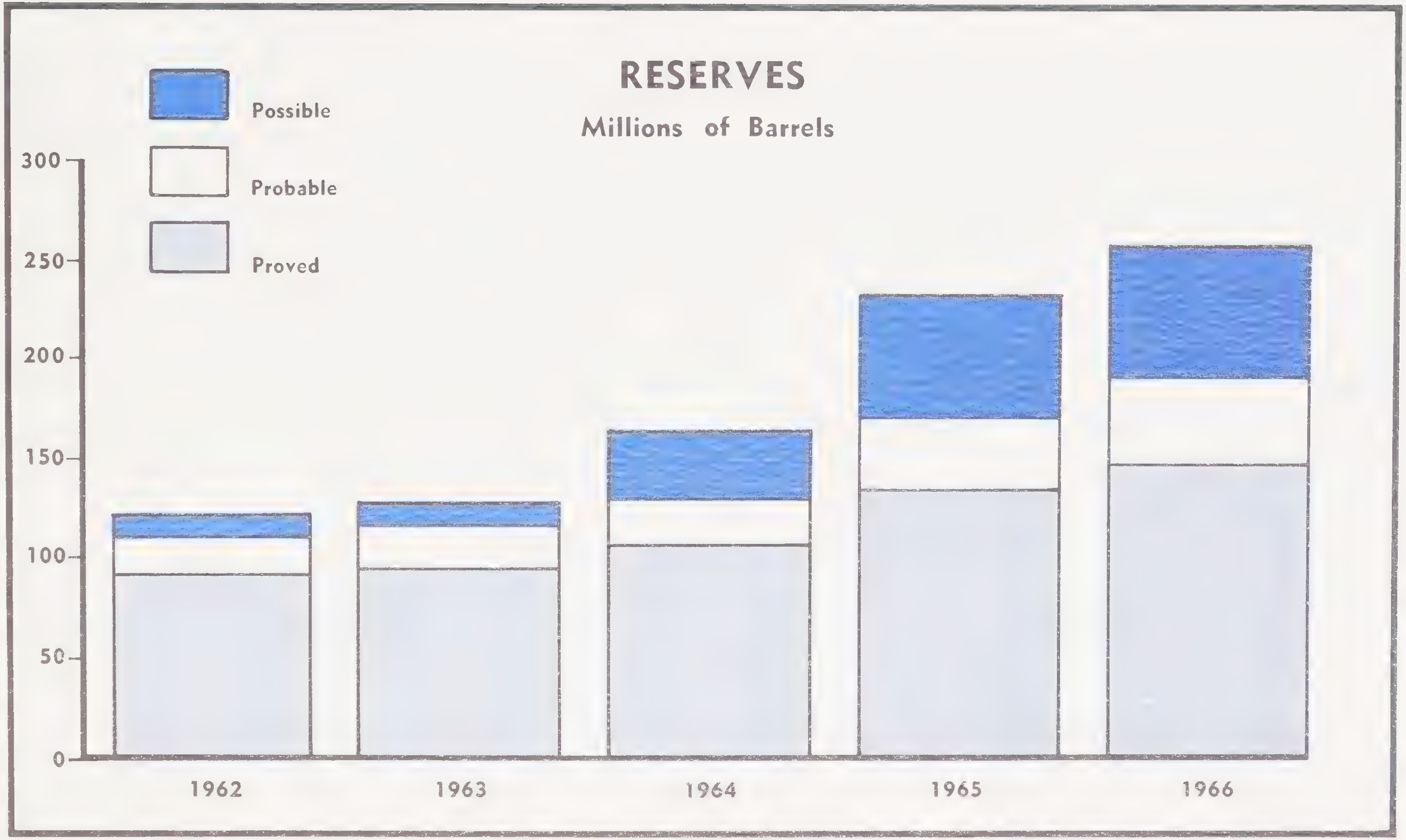
NOTE: 1964 — Fort William refinery closed.

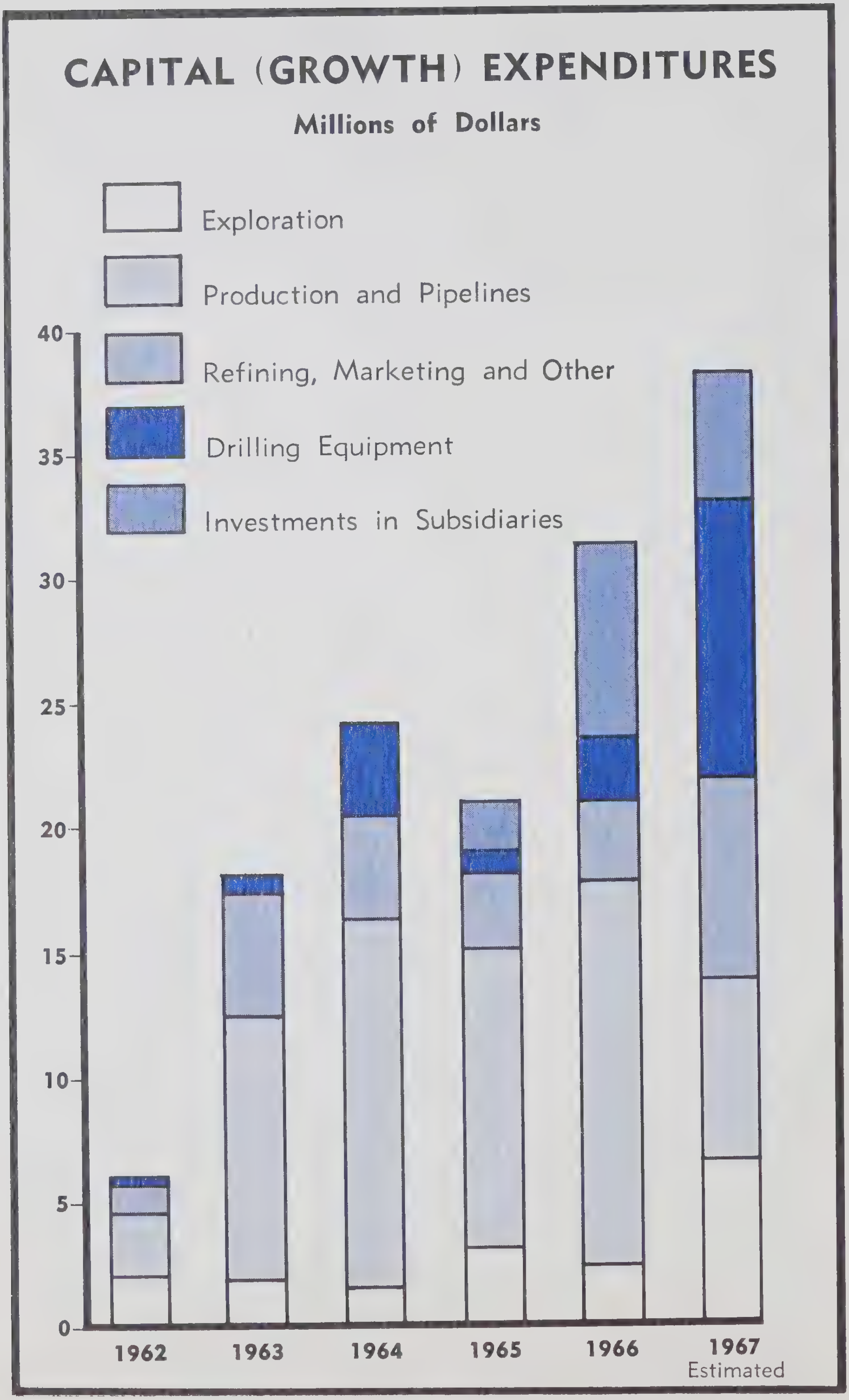


Husky's Brandon Travelcentre.


MARKETING
Thousands of Barrels Daily
NOTE: 1964 — Fort William refinery closed.
Light Oil Products
Heavy Oil Products
30
20
10
0
1962
1963
1964
1965
1966
1967
Estimated


A steam generator at Lloydminster.


RESERVES
Millions of Barrels
Possible
Probable
Proved
300
250
200
150
100
50
0
1962
1963
1964
1965
1966



CAPITAL (GROWTH) EXPENDITURES
Millions of Dollars
Exploration
Production and Pipelines
Refining, Marketing and Other
Drilling Equipment
Investments in Subsidiaries
40
35
30
25
20
15
10
5
0
1962
1963
1964
1965
1966
1967
Estimated

HUSKY OIL

BOARD OF DIRECTORS

GLENN E. NIELSON

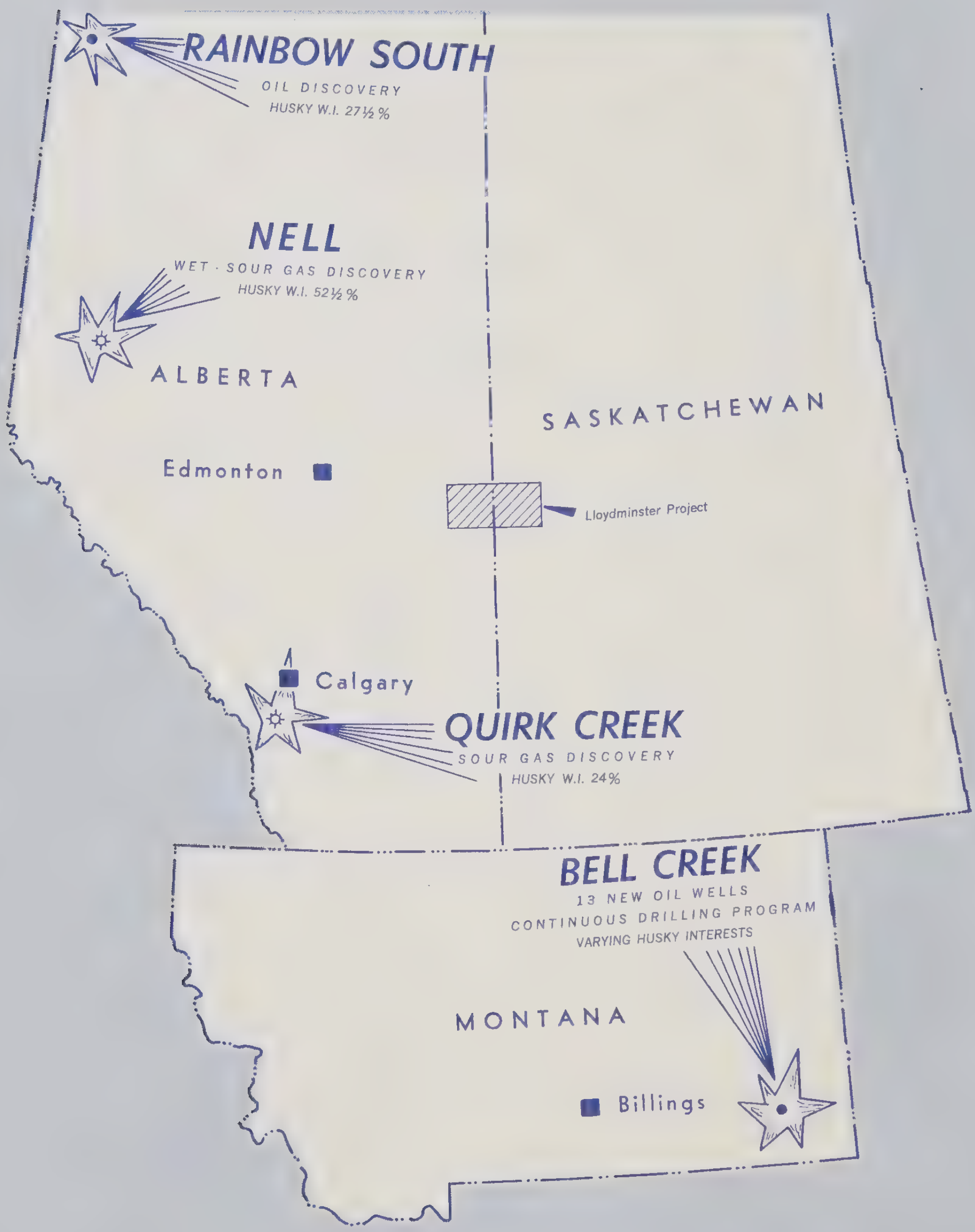
F. R. MATTHEWS, Q.C.	G. S. ECCLES
J. WADDY BULLION	J. K. MCCAUSLAND
G. E. ROARK	H. H. MILLAR
A. P. FRAME	J. L. KALB
P. R. PAYN	WARD C. PITFIELD

OFFICERS

GLENN E. NIELSON	*Chairman of the Board and Chief Executive Officer*
GENE E. ROARK	*President*
ARNOLD LARSEN	*Executive Vice President*
J. D. WINZENRIED	*Senior Vice President*
T. G. WISE	*Senior Vice President*
H. B. BRUMMOND	*Vice President*
R. M. MCMANIS	*Vice President*
M. F. WESTFALL	*Vice President*
J. E. NIELSON	*Vice President*
D. H. FLORA	*Secretary*
D. R. HAGERMAN	*Treasurer*
L. E. SAUNDERS	*Controller*

S. L. CATE	*President, Gate City Steel Corporation*
M. R. MCARTHUR	*Chairman of the Board, Rimrock Tidelands, Inc.*

IMPORTANT EXPLORATORY SUCCESSES IN 1967



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CALGARY ALBERTA

approximately the same as those obtained in the same period last year. Earnings during this period have been maintained despite the general slow-down in the construction industry within the Midwest and Rocky Mountain regions of the United States where Gate City Steel Corporation is located. It is anticipated that year-end results will be ahead of those achieved in 1966.

Sincerely,

Glenn E. Nielson

GLENN E. NIELSON,
Chairman of the Board.

August 4, 1967.

PRINTED IN CANADA

HUSKY OIL
Canada Ltd.

Quarterly Report
To Shareholders

Six Months Ended
June 30, 1967

815 Sixth Street S.W. Calgary, Alberta

HUSKY

To the Shareholders:

In a move designed to place greater emphasis on development and exploration, Husky Oil has appointed a new President and created a new position of Chairman of the Board. Glenn E. Nielson, founder of the company and president since 1938, becomes Chairman of the Board and will remain as Chief Executive Officer. Gene E. Roark is the new president and will be responsible for all operations of Husky and the direction of its personnel. Mr. Roark will reside in Calgary, and is expected to assume his new responsibilities on or before September 1, 1967.

During the past 16 years, Mr. Roark has been associated with James A. Lewis Engineering, Inc., and has served as president of that company since 1960. Lewis Engineering is one of the major petroleum consulting firms, with principal offices in Dallas, Texas, and Calgary, Alberta. Working through the Lewis firm, Mr. Roark has served as a special consultant to Husky on many matters since 1954 and has been a director since 1964. In particular, he was petroleum adviser on whom Husky depended during the merger of the United States and Canadian Husky companies in 1960 and more recently he gave technical assistance in the acquisition of the Canadian Pacific Oil and Gas deal involving 1,000,000 acres of royalty free mineral rights.

In addition to his petroleum consultation with Husky, Mr. Roark has been engaged by many of the major oil companies and independent producing companies in the United States and Canada. In the international field, he has advised the governments of Kuwait, Argentina, Colombia, Austria and Burma on matters relating to oil and gas reserves and on design of special production projects.

HUSK

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For the Six Months

(with comparativ

Financial

Sales and operating revenues
(including $11,958,000 in 1967 from
steel fabricating and warehousing) . .

Deductions
Cost of sales and operating expenses
(including $9,661,000 in 1967 from
steel fabricating and warehousing) . .
Selling, general and administrative expense
Interest (net of interest income of
$607,000 in 1967 and $218,000 in 1966
Miscellaneous — net . . . . . .
Depreciation and amortization . . .
Depletion . . . .
Foreign exploration costs . . . .
Minority interest in subsidiaries
Preferred share dividends . . . .
Profits . . . .

Net earnings . . . .

Preferred share dividends . . . . .
Earnings per common share . . . .
Common shares outstanding . . . .

Operating *(Daily Averages)*

Crude oil and equivalent gas production — bb
Crude oil and gas liquids — bbls. . .
Natural gas — Mcf . . . .
Lloydminster blend sales — bbls. . . .
Refinery throughput — bbls. . . . .
Refined product sales — bbls. . . . .

(1) Figures are unaudited and accounts of U.S. subsi
(2) Sales, costs and expenses for 1967 include the o
subsidiary on August 31, 1966. In assessing con
comparative figures have not been restated to r
(3) A statement of source and application of funds
company's operations and the delay involved in

OIL

Ltd

iaries

rating Summary

ded June 30, 1967

gures for 1966)

	1967	1966	Increase (Decrease) %
.	$42,188,000	$28,013,000	51
.	26,795,000	16,296,000	64
.	4,537,000	2,876,000	58
.	2,077,000	1,295,000	60
.	21,000	117,000	(82)
.	2,878,000	2,612,000	10
.	2,375,000	1,851,000	28
.	32,000	232,000	(86)
.	217,000	226,000	(4)
.	99,000	123,000	(20)
	39,031,000	25,628,000	52
.	$ 3,157,000	$ 2,385,000	32
.	$ 812,000	$ 515,000	58
.	36¢	29¢	24
.	6,441,211	6,392,345	
.	28,771	24,674	17
.	25,213	21,348	18
.	47,177	43,823	8
.	15,172	12,901	18
.	17,997	16,009	12
.	17,742	16,641	7

ies are included at $1 U.S. = $1 Canadian.
tions of Gate City Steel Corporation which became a
isons with 1966, it must be recognized that the 1966
ctively include results of steel operations.
been omitted because of the seasonal nature of the
paration of the statement.

He has become a recognized authority in oil and gas property appraisal. During the past ten years, appraisal reports prepared under his direction by the Lewis firm have been the basis for financial transactions in oil and gas properties which have approached $1 billion in aggregate value.

New President Gene E. Roark is shown standing beside Mr. Glenn E. Nielson, Chairman of the Board, who is seated at his desk.

Mr. Roark is considered an expert in the field of secondary recovery and pressure maintenance operations. Studies made under his direction in 1955 resulted in the first major pressure maintenance project in Canada. This project, conducted in the Pembina field, pioneered the concept of recovery of oil by pressure maintenance waterflooding in Canada and resulted in establishing many of the policies of the Alberta Conservation Board in respect to these types of projects.

Financial

Husky Oil obtained record results in the first six months of 1967, as consolidated net profit increased to \$3,157,000, a gain of 32% over the \$2,385,000 earned in the same period of 1966. Earnings after payment of preferred dividends were equivalent to 36¢ per common share, an increase of 24% over the first six months of last year. Gross revenues for the period were up 51% to \$42,188,000. Cash flow increased 19% to \$8,541,000 over last year's total of \$7,203,000 for the same period.

Production and Exploration

For the first six months, production of oil and gas, expressed as equivalent barrels, increased 17% to an average of 28,771 barrels per day, compared with the 24,674 barrels averaged daily during the same period of 1966.

Sales of Lloydminster blend of crude and condensate averaged 15,172 barrels per day, an increase of 18% over the 12,901 barrels per day for the first half of last year. A significant part of the production increase occurred in the Lloydminster area as a result of higher than expected production being obtained from the new wells being drilled and the company's initial waterflood operations.

Husky has implemented an expanding exploration program by embarking on a 10-well per year deep test program for the next five years in the Lloydminster area and by entering into several plays in Canada and the U.S. Emphasis will be placed on exploration activity in northwestern Alberta and the northeastern British Columbia.

Refining and Marketing

Refinery crude runs increased by 12% to 17,997 barrels daily. Net sales of refined production were 17,742 barrels daily, up 7% over last year, largely due to heavy asphalt movements in the first half of this year. This factor, together with the strengthening of the market, resulted in an improvement in departmental cash flow.

Briquetting

There was a heavy demand for charcoal briquets, which increased Husky Briquetting's total sales by 50% to \$2,156,000. In order to service the Ontario-Quebec market, Husky has entered into a partnership agreement with Muskoka Charcoal Ltd., and is building a briquetting plant at Huntsville, Ontario. This plant is expected to be in production by year end.

Rimrock Tidelands, Inc.

Net profit of Rimrock Tidelands, Inc. declined to \$385,000 for the first six months. Contributing to this decrease was the loss of revenue from two rigs which were working in Tunisia last year and from one offshore unit which was idle in June.

The \$10 million jack-up offshore rig being built in Scotland is scheduled for christening in mid-September. After outfitting, testing, and sea trials, it is expected that this rig will be in operation before the year end. It will be employed in the North Sea area under a three-year contract for a subsidiary of Gulf Oil Corporation.

In addition to this, a land rig located in Holland is in the process of being converted and has been contracted to Phillips Petroleum for use on a drilling platform to be located also in the North Sea.

These two developments and recent large sales of acreage in the Gulf of Mexico should substantially improve the profit in future years.

Gate City Steel Corporation

The net earnings before income taxes of \$546,000 made by Gate City Steel Corporation during the first six months of this year were